"WORKING CAPITAL MANAGEMENT"

Of

Agricultural Development Bank Limited.

A THESIS

Submitted by:

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RECOMMENDATION

This is to certify that the thesis

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Entitled

"Working Capital Management of Agricultural Development Bank limited."

has been prepared as approved by this Department in the prescribed format of faculty Management, T.U. This dissertation is forwarded for examination.

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VIVA - VOICE SHEET

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And found the thesis to be the original work of the student written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirement for

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DECLARARTION

I Hereby, declare that the work of reported in dissertation entitled ***"Working Capital Management of agricultural Development Bank Ltd."*** submitted to the Research Department of Nepal Commerce Campus, New Baneshowar, Faculty of Management, Tribhuwan University is my original work done in the form of partial fulfillment of the requirements for the master's degree in Business studies (MBS) under the guidance and supervision of Prof.Dr. Sushil Bhakta Mathema and Santosh Pokhrel of Nepal Commerce Campus.

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Sangita Ghimire
Researcher

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LIST OF ABBREVIATIONS

NCC	:	Nepal Commerce Campus
CPS	:	College For Professional Studies
ADBL	:	Agricultural Development Bank Limited
CEO	:	Chief Executive Officer
F/Y	:	Fiscal Year
Co.	:	Company
Ltd.	:	Limited
I T	:	Information Technology
Govt.	:	Government
WC	:	Working Capital
CA	:	Current Assets
CL	:	Current Liabilities
GS	:	Government Securities
TD	:	Total Deposit
LA	:	Loan and Advances
NP	:	Net Profit
CB	:	Cash and Balance
CR	:	Current Ratio
PE	:	Probable Error
QR	:	Quick Ratio
CV	:	Coefficient of Variance
B.S.	:	Bikram Sambat
A.D.	:	Anno Domini
WCM	:	Working Capital Management
A/C	:	Account
Fig.	:	Figure
NRB	:	Nepal Rastra Bank
RBB	:	Rastriya Banijya Bank

MIS	:	Management Information System
SWIFT	:	Society for Worldwide Interbank Financial Telecommunication
ATM	:	Automated Teller Machine
MBS	:	Master of Business Studies
CBs	:	Commercial Banks
CRR	:	Cash Reserve Ratio
ICR	:	Interest Coverage Ratio
CB	:	Current Balance

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Working capital measures how much in liquid assets a company has available to build its business. The number can be positive or negative, depending on how much debt the company is carrying. In general, companies that have a lot of working capital will likely to be more successful since they can expand and improve their operations. Companies with negative working capital may lack the funds necessary for growth. also called net current assets, current capital or circulating capital. In this regard, how far organizations are able to manage working capital is very essential to study.

Working capital keeps on circulating in the course of business operation. Business starts with cash firstly which is converted into inventory after some times. Inventory may be invested in three ways: raw material, semi finished goods and finished goods or goods for sale. These inventories are also converted into receivable and receivable into cash again. So it is a continuous process of business operation. To maximize shareholders wealth, firm should earn sufficient return from its operations. Earning sound amount of profit requires successful business activities. The firm has to invest enough funds in current assets for the success of business activity. Current assets are needed because sales do not convert into cash immediately. Investment in current assets should be just adequate, or not more not less, to the needs of the business firm. It should be realized that the working capital needs of the firm may be fluctuating with changing business activity. This may cause excess or shortage of working capital frequently.

Thus the study of working capital is of prime importance to internal and external analyst because of its close relationship with the current: day-to-day, operations of a business enterprise. Management of working capital in a business enterprise is very important mainly for four reasons. Firstly, an enterprise must determine the adequacy

of investment in current assets; otherwise, it would seriously erode their liquidity base. Secondly, they must select the type of current assets suitable for investment so as to raise operational efficiency. Thirdly, they are required to ascertain the turnover of current assets that greatly determine the profitability of the enterprise. Lastly, they must find out the appropriate source of funds to finance current assets. It is therefore. A recognized fact that any mistake made in management of working capital can lead to adverse affects in business and can reduce the liquidity turnover and profitability of the firm.

In the contest of Nepal, it is one of the poorest countries of the world. More than 80% of the people are dependent on agriculture. Most of the people live on low income level. Their income is only sufficient to fulfill their basic needs but not their safety needs in this contest industrialization is necessary, and it is possible only with the support of financial institution. To develop well established economic activities of any country can hardly be carried forward without the assistance and support of financial institution.

Bank is the main financial institution, which plays an important role in the economic development of the nation. It is the backbone as well as the foundation for the development of the country. Banking provides capital and helps in the financial transaction of business in many ways. It is the king of financial mechanism, which provides financial security against risk. Banking is also equally important for common people and businessman. The objective of bank is to maximize profit and for this business must run smoothly. To run the business smoothly, it is highly important to manage the working capital in every direction of financing and investing activities because without properly balancing the WC, the business enterprises cannot grab the opportunity in regular course of business.

Its principal operations are concerned with the accumulation of temporary idle money of the public for advancing others for expenditure. In other words, Bank is an institution that deals in money and its substitutes and provides other financial services. Banks accept deposits and make loans and derive a profit from the difference

in the interest rates paid and charged, respectively. Depositors may be either individual or institutions. These deposits may be current, saving or fixed and the tenure depends upon the mutual agreements between the bank and depositors. Similarly, the borrowers who borrow this money from the bank may be either an individual or institutions. The tenure of the loan may vary as per the demand, criteria and the usefulness of the loan. Some banks also have the power to create money.

Working capital management is an important decision making area of financial management of an enterprise. It requires understanding for how to raise and allocate financial resources, how to relate short-term investments, and financial decisions to the overall objectives of the firm, and how to relate short-term financial decisions to certain long-term financial decisions.

Working capital management involves the relationship between a firm's short-term assets and its short-term liabilities. The goal of working capital management is to ensure that a firm is able to continue its operations and that it has sufficient ability to satisfy both maturing short-term debt and upcoming operational expenses. The management of working capital involves managing inventories, accounts receivable and payable, and cash.

Working capital is used to pay short-term obligations such as accounts payable and buying inventory. If the working capital dips too low, the risk runs out of cash. Even very profitable businesses can run into trouble if it loses the ability to meet its short term, obligations. To calculate working capital requirements this calculator uses the "Current Ratio" to determine a target amount of working capital.

There are two concepts of working capital-gross concept and net concept. Gross working capital, simply called as working capital, refers to the firm's investment in current assets. Current assets are the assets which can be converted into cash within an accounting year and include cash, short-term securities, debtors, bills receivables and stock. Net working capital

refers to the difference between current assets and current liabilities. Current liabilities are those claims of outsiders which are expected to nature for payment within an accounting year and include creditors, bills payable and outstanding expenses. Net working capital can be positive or negative.

A positive net working capital will arise when current assets exceed current liabilities.

A negative net working capital occurs when current liabilities are in excess of current assets.

In general, the concept of working capital is synonymous with the fund available for meeting day-to-day requirements of a company. But according to a group of authorities, working capital refers to the amount of investment in total current assets only. It means they are supporting the gross concept of working capital. Thus the gross concept of working capital denotes short-term assets only, it does not include short-term liabilities. However, a business cannot exist only with the current assets, it needs current liabilities too. Actually, the amount of working capital heavily depends upon the amount of current liabilities. In this sense working capital, means the excess of current assets over, current liabilities. This concept of working capital is called as net concept.

1.1.1 Introduction of sample banks

Agricultural Development Bank Limited

The Agricultural Development Bank was established in 1968 under the ADBN Act 1968, as successor to the cooperative bank. Its main objective was providing institutional credit for enhancing the production and productivity of the agricultural sector in the country. Later, the modification of the act allows the bank to extend credit to small farmers under group of liability and to finance for promoting cottage industries. The amendments also allowed the bank to engage in commercial banking activities for the recruitment of domestic resources.

ADBL is an independent organization largely owned by Government of Nepal. The bank has been working as a foremost rural credit institution since the last three decades,

contributing a more than 67 percent of institutional credit supply in the country. Hence, rural finance is the principal operational area of ADBL. Besides, it has also been performing Small Farmer Development Program (SFDP), the major poverty mitigation program launched in the country. Furthermore, the bank has also been involved in commercial banking operations since 1984.The ratification of Bank and Financial Institution Ordinance (BAFIO) in February 2004 eliminated all Acts related to financial institutions including the ADBN Act, 1967. In line with the BAFIO, ADBL has been incorporated as a public limited company on July 14, 2005. Thus, ADBL operates as "A" category financial Institution under the legal framework of BAFIO and the Company Act, 2053.

ADBL's activities globe around deposit mobilization, advancement of various credits, international banking including trade financing, inward and outward remittances and funds and portfolio management. The company has introduced many facilities to the customer. Despite of unfavorable conditions, the bank has been able to make a substantial marketing of products, expansion of areas and diversification of service using latest technology, to grow further. ADBL has committed to provides products and services of the highest standards to its customers by understanding their requirements best suiting the market needs.

In pursuit to deliver the products and services of the highest standards, ADBL has state-of-art technology for appropriate and efficient Management information System (MIS) and rendering quality services. SWIFT for international trade and transfer of funds around the world, correspondent banking relationships with banks worldwide for effective and proficient execution of international trade and remittance activities, range of corporate and retail banking products and services and centralized banking operations for better risk management, consistent service deliveries and lowering operating cost. The bank has changed from wholesale lending to retail lending, considering the growing demand and prevailing scenario of investment. ADBL has been providing anywhere banking facilities. From which customer can deposit and withdraw from any bank and also from any ATM machine located Nepal. Bank has launched consumer-oriented service such as hire purchased, educational loan, housing loan and foreign employment loan scheme.

Independent and self-governing board, involving a pool of endowed and farsighted directors, each director of the board has been recognized and well acclaimed for his/her contribution in the development and growth of ADBL. Young, seasoned and talented bankers, each with years of banking experience and proven competency, constitute the management team of ADBL .In the present Economic scenario the bank has to compete with other existing and new commercial banks of Nepal. It has already established itself as an innovative bank that introduces new modern technology in the banking industry. In short, ADBL has made a significant contribution to support the clear view of the method and process adopted in the entire aspect of the study. It is also considered as the path from which researcher can systematically solve the research problem.

1.2 Focus of the study

There are two types of capital employed in an organization & both are equally important. Here the study of focus is on working capital which is concern to day-to day operation. The organization should always concern on structure of WC & its management. The working capital helps to operate fixed assets in proper way. Without WC one can't utilize its fixed assets .Therefore the financial manager should always concern to make optimal level of working capital, which helps in wealth maximization as well as profit maximization of the business organization.

Financial institutions assist in the economic development of the country. The concept of financial institutions in Nepal was introduced when the first commercial bank, the Nepal Bank Limited, was established in 30th Kartik, 1994 B.S. as a semi government organization. In the fiscal year 2039/040, new banking policy was introduced for the establishment of new banks by the joint investment of foreign nations. The establishment of joint venture banks gave a new horizon to the financial sector of the country.

Bank is a business organization where monetary transaction occurs. It creates funds from its clients' savings and lends the same to needy person or business companies in terms of loans, advances and investment. So, proper financial decision-making is more important in banking transaction for its efficiency and profitability. Most of the financial decisions

of a bank are concerned with current assets and current liabilities. The working capital management of a bank is different from that of other business enterprises. A bank plays a significant role to fulfill the requirement of working capital of any other type of business enterprises. It also needs efficient management.

Working capital in the modern age covers broad area. WCM covers almost half of the work of the financial management. Among this broad area, we are focusing on its size, structure, turnover position, liquidity & profitability position of Nepal's sole proprietor bank, Agricultural Development Bank Ltd.

1.3 Statement of the problem

Working capital management has been regarded as one of the conditioning factor in the decision making issues. It is needless to say that it is very difficult to point out as to how much working capital a particular business organization requires. The organization which is not willing to take risks can go for more short term liquidity. The more of short- term liquidity means more of current assets and less of current liabilities. The less current liability implies less short-term financing heading to the lower returns resulting from the out problems and its solutions to make efficient use of funds for minimizing the risk of loss to attain profit objective.

It will not be an exaggeration to say that the success of any business organization depends upon its entire environment. Financial management is one of them which the organization can control to some extent. It is concerned with the decision making regarding the size and composition of assets, and the level and structure, the cheaper source of fund and to invest it at the best opportunities etc. come under the heading of financial decision making. The management of short-term assets and source of finance which entails an analysis of the effect of risk-end profitability cannot be overlooked.

The working capital has to be regarded as, one of the conditioning factors in the long range analysis and decision making. To achieve the goal of overall business, the determinants of working capital management should be as accurate as possible. It means money invested on working capital should be neither more nor less because both the

position of working capital affects not only liquidity but also profitability of the organization. The investment decision should be made on any type of current assets by considering their role in corporation, and determining which one is more beneficial to the corporation and which is not.

Working capital' of the organization cannot be managed in an easy way and it should not be neglected. Further, the banker's problem in this regard is more difficult than that of the manufacturing and non-manufacturing business organizations. Commercial banks are great monitory institutions, important to the general welfare of the economy. More than any other financial institutions, they have a vastly sobering and exacting responsibility: they must be ready to pay "on demand" without warning or notice, a good share of their liabilities. Different types of deposits are the main source of fund which can be used on issuing loans and advances to different sectors. Hence in order to have a higher return on investment fix the level of deposits and the capacity of mobilizing these deposits is main problem of working capital management. Banks can get higher profit if they invest their increasing deposits in proper places, otherwise profitable the bank cannot be expected. Some specific problems felt in this study are as follows:

i. Is the composition of working capital of ADBL appropriate?
ii. How working capital management affects its profitability?
iii. What are the major factors affecting the management of working capital in ADBL?
iv. How the firms have been raising the required funds? Is the fund properly and productively utilized or not?

1.4 Objective of the study

Each and every research study is conducted with a view of achieving some objectives. The major objective of this study is to evaluate the working capital position of ADBL. The other objectives of this study are to throw light on the importance of the proper management of working capital and to make suggestion about how to manage working capital of ADBL from the long- range view point. The specific objectives of the study are as follows:

- To analyze liquidity composition of working capital and profitability position of ADBL.
- To analyze comparative working capital management of ADBL .
- To study the position of current assets and current liabilities and their impact.
- On the basic of the analysis to provide recommendation and suggestion for the improvement of the working capital management of ADBL in the future.

1.5 Significance of the study

Working capital is regarded as the life blood and nerve of a business concern and is essential to accommodate the smooth operations of any organizations. Nepalese commercial banks are operating in the competitive environment. In this situation, banks have to adopt suitable strategies for their existence. They should balance and coordinate the different functional areas of business concern. The success or failure of any organization depends on its strategy, which is affected by working capital management. Working capital management is the root problem to prepare the proper strategy on its favors. So, the study might be helpful for the management of the concerned bank as well as it might be valuable for the researcher, scholars, student who wants to study into the working capital management of the joint venture banks.

Working capital is the size of investment in each type of current assets. Each of the current assets should be managed efficiently and effectively. It is because decision regarding working capital affects not only the profitability of the firm in the short-term, but also its very survival in the long-run. The management of working capital should not be neglected by enterprises. Otherwise, they will seriously erode their financial viability. As the commercial banks in Nepal are exacting greater and greater influence on the economy of the country, an- effective and efficient management of their current assets is needed to better the profitability of the firm.

The need of the study like this arises from the real nature of the banking business and also forms the impact that, it has in the economy of the country. Because the business of banks is to accept deposits and advance loans, and the level of deposits and loans

depends upon the working capital policy, the study of this type will be most important for the bankers, the economists, and the public at large. It provides the literature to the researcher who wants to carry on further research in this field. Therefore, it has been felt very necessary to evaluate the position of working capital management and to focus on the importance of the working capital management in ADBL.

1.6 Limitation of the Study

None of the study can go beyond the boundary of some limitations and this study is also not an exception. The scope of the present study has been limited in terms of period of study as well as sources and nature of data. The following are the major limitations of the study:

- This study is based secondary data only.
- The validity of the study depends on the accuracy of the information provided by the respondents covered under the study.
- The study is primarily based on interview and questionnaire method of data collection Therefore limitation of those method are also remained in the study.
- Resources cited from world wide website may not be result same as study time, this is due to dynamic update from owner's part.

1.7 Organization of the study

This study has been divided into five chapters. They are as follows:

i. Introduction

The first chapter deals with introduction, background of the study, statement of problems, objective of the study, significance of the study, limitations of the study and organization of the study.

ii. Review of Literature

The second chapter deals with the review of related literatures and available studies written and prepared by different experts and researchers in the field of working capital.

iii. Research Methodology

The third chapter presents the methodology used in this study. It deals with research design, sources of data, data gathering procedures, population and samples and data processing procedures.

iv. Presentation and Analysis of data

The fourth chapter fulfills the objectives of the study by presenting the data and analyzing them with the help of various financial and statistical tools followed by methodology. At the last part of this chapter, an explanation of the interview and the major finding of the whole study have been presented.

v. Summary, Conclusion and Recommendations

The fifth chapter summarized the whole study. Moreover, it draws the conclusions and forwards the recommendations for the improvement of working capital management of ADBL.

At the end, an appendix has been included according to the test of relationship in between various variables of working capital and a bibliography card has been included according to the literatures are reviewed. After all, the bibliography and appendices a

CHAPTER II

REVIEW OF LITERATURE

2.1 Conceptual Framework

The main purpose of this chapter is to review the available literature on working capital management in the context of Nepalese enterprises including the available information of ADBL. After selecting the optics of the research, researcher study different magazines, journals, and newspaper, book to collect the information about their subject matter. This process of studying different materials, which are concerned with the selected topics of the research, is known as review of literature. P.V. Young argues "Review of literature is useful in research because it provides the insight and General knowledge about the subject matter of research".

2.1.1 Concept and meaning of Bank

Evolution of banking arose after evolution of money. In ancient days, trading was done by exchange of goods. This is known as banking system. Gradually the receipt was done through coins. At that time, gold and silver are used to metal coin as money. Because of shortage of metal the Chinese discovered paper money first. This was named as bank notes and now they are known as currency notes. They are being issued by the central bank of the respective country based on the backup of valuable goods like gold. This is the duty of Nepal Rastra Bank or central bank of Nepal in our country.

The word 'bank' is derived from the French word 'banca' or 'bancus' which means bench or counter. Jews in Italy used to sit and do the business of landing. Another version is that the word bank has derived from German language word-bank which is joint stock fund. However, the word bank means a store house of money. The earliest banking activities were noticed with a bank in Venice in early 1157 by providing loans to the business class people. Then In 1336, banks were set up in Florence-Italy and they accepted deposits from public and lend them to the business community. In 1401, public bank was started in Barcelona adding the function of bank like, exchange of money, discounting bill,

accepting deposits and lending loans against security. Modern banking is started in Geneva from the year 1407 and in Amsterdam from the year 1609.

The banking was initiated by Goldsmith in England. They used to receive valuables and funds from their customers and issue receipts. In 1694, the Bank of England was started with a view to provide finance to government, by collecting funds from public. During the 18th and 19th centuries, bank supported the cause of industrial revolution. Modern banking is introduced in India during the British regime with the concept of unlimited liability. The General Bank of India was set up in 1786.

2.1.2 Development of banking industry in Nepal

In context of Nepal, the development of banks can be summarized in four phases:

A. Historical period- before 1937 (Phase I)

B. The government sector bank-1936 to 1983 (Phase II)

C. Liberalization phase of banking sector-1983 to 2003 (Phase III)

D. Universal banking- after 2004 (Phase IV)

According to Kolb & Rodrigeuz (1996), A bank is an organization whose principal operations and concerned with the accumulation of the temporarily idle money of the general public for the purpose of advancing to other for expenditure.

Ordinary banking business consists of changing cash for bank deposits and bank deposits for cash, transferring bank deposits from one person or corporation to another, giving bank deposits in exchange for bills of exchange, government bonds, the secured or unsecured promises of businessmen to repay and so forth.

Generally, banks provide short term debt necessary for trade and commerce of the country along with other ordinary banking business such as collecting the surplus in the form of deposit, lending debts by discounting bills exchange, accepting valuable goods in security, acting as an agent of the client and so on. Therefore a bank is an institution which accepts deposits from the public and in turn advances loans by creating credit. Bank is mediator of depositors who have surplus and creditors who needs money.

To know liquidity, we have to know modern bank's various functions, which is as follows:

I. Acceptance of Deposits

The bank accepts different types of deposits from the public:

Fixed Deposit

Fixed deposit is also known as Time Deposit. Bank offers fixed interest rate on this deposit and repays principal together with interest at fixed maturity or pays interest on regular interval but principal only at the maturity, owners cannot write cheque on time deposit, but the interest rates are generally higher than those of saving deposits. Time deposits have fixed maturity length, ranging from several months to over five year and have substantial penalties for early withdrawal. Time deposits are more costly source of funds for the banks.

Current Deposit

In this type of deposit, the depositor can withdraw money whenever he requires and there is no limitation in issuing cheque by the customer. This type of deposit is generally maintained by business firms, other business motive institutions and individuals that have higher volume of transactions in their account. Banks charge certain amount to the customer for not maintaining the minimum balances in the current account.

Saving Deposit

Some restrictions are imposed on the depositor under this account. For example, he/she can withdraw only a specified sum of money in a day. Generally, in this type of deposit banks accept deposits from individuals and non-profit making organization. NRB however does not bar banks from accepting saving deposits form profit making organization. Saving deposits attract interest which is normally less than that of long term deposit but more than that of short term deposit. Saving deposit is an important source of Bank funds. Saving deposit are payable on demand, that is, if a depositor shows up at the Bank and requests payment by making withdrawal, the Bank must pay the depositor immediately.

Recurring Deposit

The purpose of this account is to encourage regular savings by the public, particularly by the fixed income group. Generally money in these accounts is deposited in monthly installments for a fixed period and is repaid to the depositors along with interest on maturity.

Call Deposit

Call Deposit incorporates the characteristics of currents and saving deposit. Current in the sense, deposits is withdrawn at call and savings in a sense the deposits earns interest. Interest rate on call deposit is negotiable between the bank and the depositors and hence it is normally not announced in public.

II. Advancing of Loan

The various types of loans and advances are as follows:

Cash Credit

It is revolving type of loan account, normally granted against stock and receivables. This account is regulated by stock statements and drawing power wherein credit/debit transactions are permitted within the sanctioned limit. The level to which debit balance can be permitted is decided by drawing power or limit whichever is lower. Cash credit is normally granted against security of certain commodities, products or book debts/receivables.

Overdraft

The bank allows its credit worthy and reliable customer to overdraw their accounts through cheques. The customers, however, pays interest to the bank on the amount overdrawn by them. An overdraft is granted against security of certain investments like Bonds/Fixed Deposits or some time it is given against personal guarantee.

Demand/Term Loan

Demand loan is a loan provided on repayment basis and is not a running account. Demand/term loan once granted will have a debit for the quantum sanctioned and thereafter only credits of repayment, normally personal in nature, are permitted. It is given against security and the security will be in the form of fixed assets or fixed deposits and it will never be given against stocks. These loans are granted to acquire fixed assets like machinery and construction works.

Trust Receipt Loan

Trust receipt loans are sanctioned as a limit to be utilized against hypothecation of stocks imported under own letters of credit, normally for a period of 90 days. It is in the nature of demand loan, which is liquidated by 2-3 installments and the limit is not cancelled with liquidation but is reinstated. Hence this loan is more in the form of working capital loan.

Bill/Cheque Purchase/Discounting

This is the best form of advance in terms of credit discipline as it is self-liquidating in nature. Any trader/industrialist receives payments by cheques or draws documents on the buyer. These cheques/bills of exchange are discounted by the banks and in turn receive commission.

Money at Call and Short Notice

These loans are generally made to other banks and financial institutions. Such loans are very short period loans and can be called back by the bank at a very short notice of on day to 14 days.

III. Agency Functions of Banks

The various agency services rendered by the banks are as follows:

Transfer of Funds

Fund transfer from one place to another is the necessity of the today's world but the physical transfer of cash from one place to another involves many risks. The banks help their customers in transferring funds from one place to another place through different mechanism such as bank draft, fax, TT, and SWIFT and so on. People transfer money to or from one country to another-such as Nepalese who are in abroad for foreign employment send their earnings through foreign bank to Nepalese bank called as inward remittance. Or one can transfers money to another country from Nepal called as outward remittance. In export and import business, a firm needs to send/ bring money from/to a country. A firm that need to import raw material for producing its goods opens LC in a bank or it may directly import without opening LC in case it pays to the party in advance -called as outward remittance. Or a Nepalese firms export goods to a firm in abroad need to pay the bills to Nepalese party called as inward remittance.

Collection of Funds

The bank collects the funds of its customers from other banks and credits to their accounts. The customers do have bills/ cheques that need to be collected from the other banks in own country or foreign. A bank plays a role of intermediary in collecting funds from other banks. Banks collect bills or cheques through local clearing or outward bills collection (OBC) through their correspondent banks.

Purchase and Sale of Share and Securities

The bank buys and sells stocks and shares of private companies as well as government securities on behalf of customers. Customers who wish to buy/sale securities and shares can get access through a bank which acts as an intermediary institution.

Purchase and sale of Foreign Exchange

The bank also carries on the business of buying and selling foreign currencies. Generally exchange of foreign currencies in developed countries is done by Exchange Company/banks but due to lack of exchange banks in our country this function is done by commercial banks. Tourists carrying foreign currency (FCY) such as US dollars, Great Britain Pounds (GBP), EURO and so on can exchange their currency in banks. This function has facilitated many people across the world. People in need of FCYs also get easily in their home country provided the purpose of their need is as per central bank regulations regarding FCYs exchange.

Creation of Credit

Creation of credit is one of the most important functions of commercial banks. In order to earn profits, they accept deposits and advance loans by keeping small cash in reserve for day-to-day transactions. When a bank advances a loan, customers need to open an account to draw money by cheque according to his needs. By granting a loan, the bank creates credit or deposit. Bank lending in productive sector has multiplier effect in the economy. It not only helps the particular borrower/ entrepreneur, it helps generate employment, contributes positively to international trade, and enhances national income and savings.

Financial Performance Analysis

In this sub-chapter approach of financial performance analysis is presented. By the help of financial performance analysis we can identify strength and weakness of financial institutions. Under this sub heading by the help of financial analysis, concept of liquidity and liquidity management are discussed.

A commercial bank is simply a business corporation organized for the purpose of maximizing the value of shareholders wealth invested in the firm at an acceptable level of risk. Profit is one of the basic indicators of sound financial performance. It is usually the result of sound business management, cost control, credit risk management and general efficiency of operation. Profit is essential for a firm for its survival, growth and to maintain capital adequacy through profit retention. The objective of maximizing profit with a level of risk acceptable to the bank's stockholders is not easy to achieve, as the

recent upsurge in bank failures around the globe clearly suggests. Under the free economic system like USA or liberal economic system of Nepal, the interest of the nation as well as those of the individual stockholder's are supposed to be best served by vigorously seeking profit.

Although the profit is important for any business motive firm, it cannot be the sole objective of an enterprise or financial institution and a financial enterprise should not be evaluated just on the ground of the profit it has earned. Neither the bank nor the community will be best served if the banker unreasonably sacrifices the safety of his funds or the liquidity of his bank in an effort to increase income.

Financial performance analysis is a process of identifying the financial strength and weakness of the firm by properly establishing relationship between the item of balance sheet and the profit and loss statements. It is also a study of relationship among various financial factors in a business as disclosed by a single set of statements and a study of the trend of these factors as shown in a series of statements. By establishing a strategic relationship between the items of a balance sheet and income statement and other operative data, the financial analysis reveals the meaning and significance of such items. Thus, financial performance analysis is required to take managerial and financial decisions.

A fair evaluation of bank's performance should start by evaluating whether it has been able to achieve the objectives its management and stockholders have set. The fundamental analysis in terms of financial analysis is different from market message reflected in technical analysis guided by the investors 'psychology based in speculators' manipulation of information. These are very different from industry and overall economic analysis (Shrestha, 2004:165). Financial decisions cannot be made in vacuum. They are to be based on proper financial analysis by using financial tools such as financial ratios so as to maximize the financial performance of a company. The assessment of the company's past, present and anticipated future financial conditions is important to identify the overall financial health of such company. Annual report contains financial statements as well as management opinion of the past years' performance and firm's future prospects. In financial analysis, certain guiding criteria include:

Historical evidence as a base of evaluating company's financial performance- an understanding of change and factors of change that appropriately influence financial decisions. Economic consideration- gaining additional perspective and improved insight of both trend and averages such as price level, business profits, interest rates, dividends, security-price movements, etc.

Analysis of these financial statements helps in measuring the overall financial performance of companies. What can be done through financial performance analysis is to:

Obtain information that can be used for decision making.

Judge performance and management effectiveness.

Identify the deficiencies and weaknesses.

Take corrective actions timely to improve the performance.

Gain adequate insights into the possibilities of making changes worthwhile.

Evaluate the possible implications of alternative courses of actions.

The roots of major management decisions revolve around financial information. Acareful inspection of alternative choices on the basis of projected information representing the comparative results of each is needed to arrive at the selection of most favorable decision for eventual implementation. This brings us to the question what constitute financial information? The basic source covering financial information about a firm's affairs is its annual final accounts i.e. Profit & Loss Statement for the last operating period (quarter/half year/year etc,) and Balance Sheet as at the end of that period. Profit and Loss accounts reveal the operating results of the business activities of the firm. These sources, however, reveal only part of the necessary and required information and leave a considerable gap. It is therefore necessary to further examine and break-down the information in these statements with a much greater elaboration and detail to decipher the comparative strengths and weaknesses of the firm. For this purpose, we can employ certain analytical tools and perceptive statements based on the source data from the balance sheet and profit & loss account statements.

Financial Analysis Serves the Following Purposes to the Concerned Authorities/Bodies. The government for compiling national statistics relating to the status and growth of each industry; The shareholders, as well as perspective investors eager to know the present and predictable trends of the business; Banks and financial institutions who are interested

with project appraisal and conducting feasibility and viability studies to ascertain the credit worthiness of the applicant-firm's project; Suppliers who want to know how viable the business is in order to enter into long-term contracts; the same need arises for customers who need to procure products from the business regularly; Credit Rating Agencies, Stock exchange authorities who study the risk-factor affecting the innumerable small investors who have parked their life-savings in the firm by way of equity, debt (bonds) or deposits.

Financial data is to be analyzed with reference to the particular objectives of the person concerned either external or internal as regards the firm. Before organize analysis the type of analysis and the type of information needed are to be ascertained, as well as identification of the source-data, and the analytical tools to be employed. Analysis may be done with reference to a particular financial year in respect of different firms of a particular group or industry to assess their comparative status and performance or it may be restricted to a particular firm for a stretched period of 5 to 10 years to decode its strengths and weakness and to analyze how it is progressing indifferent directions over this period.

Basically a financial analysis consists of a three-step process as under:

Identify the source information relevant to the decision to be made from the total pool of data provided by the annual financial statements

Re-arrange the particular data selected to highlight significant relationship

Study the analyzed information critically and draw relevant conclusions there form

Objectives of Financial Analysis

The followings are the main objectives of the analysis of financial statements:

To estimate the earning capacity of the firm.

To measure the financial position and financial performance of the firm.

To determine the long term liquidity of the funds as well as solvency.

To determine the debt capacity of the firm.

To decide about the future prospects of the firm etc.

As the matters of the fact, the objectives of analysis of these statements, depends to a large extend on the point of the view of the analyst, the degree of interest in the company

and the need for depth of enquiry and finally on the amount and quality of the data available.

2.1.3 Concept of Working Capital

The management of the funds of business can be described as financial management. Financial management is mainly concerned with two aspects. Firstly, fixed assets and fixed liabilities; in other words, long-term investment and sources of funds. Secondly, current assets and current liabilities, that are concerned with current uses and sources of funds. Both of these types of funds play a vital role in business finance. Business firms need various types of assets in order to carry out its operation. Some assets are required to meet the needs of regular production and some others are required specially to meet day to day, expenses and short-term obligations. The assets, such as cash, marketable securities, account receivables and inventories, which are known as current assets are required to be maintained at a certain level depending upon the volume of production and sales.

The cash and marketable securities are respectively considered as purely liquid and near liquid assets whereas the account receivable and inventories are not. However, they can be liquidated as and when necessary within a period of less than one year. The capital invested in these assets is known as working capital. In short, working capital is the source of financing current assets and it includes short as well as long-term financing.

Working capital is a controlling nerve of business. It is an important and integral part of financial management as short-term survival is a pre-requisite to long term success. As pointed out by Ralph Kennedy and Steward McMullar, the inadequacy or mismanagement of working capital is the heading cause of business failure. Unless the payment is made at the maturity of the particular debt, the firm is at worst and the creditors may force the firm to terminate its business.

Firms need cash to pay for all their day-to-day activities. They have to pay wages, pay for raw materials, pay bills and so on. The money available to them to do this is known as the firm's working capital. The main sources of working capital are the current assets as these are the short-term assets that the firm can use to generate cash. However, the firm also has current liabilities and so these have to be taken account of when working out how much working capital a firm has at its disposal.

Working capital is therefore:

Working Capital (WC) = Current Assets (CA) – Current Liabilities (CL)
Thus working capital is the same as net current assets, and is an important part of the top half of the firm's balance sheet. It is vital to a business to have sufficient working capital to meet all its requirements. Many businesses have gone under, not because they were unprofitable, but because they suffered from shortages of working capital.

Working capital refers to the cash a business requires for day-to-day operations, or, more specifically, for financing the conversion of raw materials into finished goods, which the company sells for payment. Among the most important items of working capital are levels of inventory, accounts receivable, and accounts payable. Analysts look at these items for signs of a company's efficiency and financial strength. The better a company manages its working capital, the less the company needs to borrow. Even companies with cash surpluses need to manage working capital to ensure that those surpluses are invested in ways that will generate suitable returns for investors.

Gross Concept:

According to gross concept, WC refers to the capital invested in current assets of a firm. It focuses only the optimum investment on current assets and financing of current assets. It includes cash, short-term securities, and inventory and account receivables. The level of current assets may be fluctuating with the changing business activity. Thus, this concept can help earning more profit through maximum utilization of current assets. This concept is called quantitative concept.

Working capital in gross concept means the total sum of current assets only. The view was supported by distinguished authorities like Mean, Baker, Milled, Pandey, Pradhan, Field and Adam Smith. Adam Smith called 'Circulating Capital' for current assets. The use of this term emphasizes on the short-term cash cycle of the firm. The short-term cash cycle refers to the recurring transactions from cash to inventory, inventory to receivables and receivables to cash again.

Net Concept:

According net concept, working capital refers to the difference between current assets and current liabilities. In other words, it is that part of current assets financed with long term funds. It focuses on the liquidity position of the firm and suggests extending which working capital need to be financed by permanent sources of funds. It is not very useful to compare the performance of different firms as a measure of liquidity, but it is quite useful for internal control. This concept helps to compare the liquidity of the same firm over a time.

The term net working capital refers to the difference between current assets and current liabilities. Current liabilities are those claims of outsiders which are expected to nature for payment within an accounting year, and includes; creditors, bills payable, bank overdrafts and outstanding expenses or accrued income. Net working capital arises•- when current assets exceed current liabilities. A negative WC occurs when current liabilities are in excess of current assets.

According the well known Indian professor I. M. Pandey, there are specially two concepts of working capital; Gross concept and Net concept. The gross working capital simply are those assets, which can-be converted into cash within an accounting year and includes cash, short-term securities, debtors, bills receivables, stock and prepaid expenses. According to James C. Van Home, there are two major concepts of working capital – net working capital and gross working capital. When accountant use the term working capital, they are generally referring to net working capital, which is the dollar

difference between current assets and current liabilities. This is one measure of the extent to which the firm is protected from liquidity problems. From a management viewpoint, however, it makes little sense to talk about trying to actively manage a net difference between current assets and current liabilities, particularly when that difference is continuously changing.

Financial analysts, on the other hand, mean current assets when they speak of working capital. Therefore, their focus is on gross working capital. Since it does make since for the financial manager to be involved with providing the correct amount of current assets for the firm at all times, we will adopt the concept of gross working capital. As the discussion of working capital management unfolds, our concern will be to consider the administration of the firm's current assets- namely, cash and marketable securities, receivables, and inventory and the financing needs to support current assets

Thus, there are two concepts of WC: gross concept and net concepts. However, the concept of WC is related not only with gross and net concepts of WC, but also wing organization borrowings. The management of any organization has to pay attention towards the total amount of both current assets' as well as borrowings. And along with this, the management has to check whether profit earning capacity of the organization is favorable or not because it is higher than the cost of borrowings. In a corporation or any type of firm, the financial manger should pay attention to the aspects of profitability. He should also aim to ensure the liquidity of the firm. Any established business is a constant 'debtor'. It borrows from financial institutions. It purchases merchandise accredit And it has tax obligations to the government of or the concerned authorities. Thus in every step of the business or corporation activities, there is an obligation of creditors. So, to satisfy their creditors, the firm must have that much of liquid cash of making payment of all these obligations in time. Hence, both concepts of net and gross working capital are resources needed by a firm and use it in a most profitable field without keeping any idle fund as far as possible.

2.1.4 Classification of Working Capital

Before turning our attention to the way working capital should be financed, we need to take a slight detour and classify working capital. Working capital can be classified into two types:

- Permanent or fixed working capital
- Variable or temporary or fluctuating working capital.

A firm's permanent working capital is the amount of current assets required to meet long term minimum needs. You might call this "bare bones" working capital. Temporary working capital, on the other hand, is the investment in current assets that varies with seasonal requirements. Figure in below illustrates the firm's changing needs for working capital over time while highlighting both the temporary and permanent nature of those needs.

Permanent working capital is similar to the firm's fixed assets in two important respects. First, the amount investment in both of these asset groups is long term. Therefore, suppliers of capital to the firm need to realize the funding needs for permanent current assets is long term despite the seeming contradiction that the assets being financed are called "current"'. Second, for a growing firm, the level of permanent working capital needs will increase over time in the same way that a firm's fixed assets will need to increase over time. However, permanent working capital is different from fixed assets in one very important respect - it is constantly changing. Permanent working capital does not consist of particular current assets staying permanently in place, but is a permanent level of investment in current assets, where individual items are constantly turning over. Viewed still another way, permanent working capital is similar to the level of water that we find in a bay at low tide. Like permanent working capital, temporary working capital also consists of current assets in a constantly changing form. However, since the need for this portion of the firm's total current assets is seasonal, we may want to consider financing this level of current assets from a source which can itself be seasonal or temporary in nature.

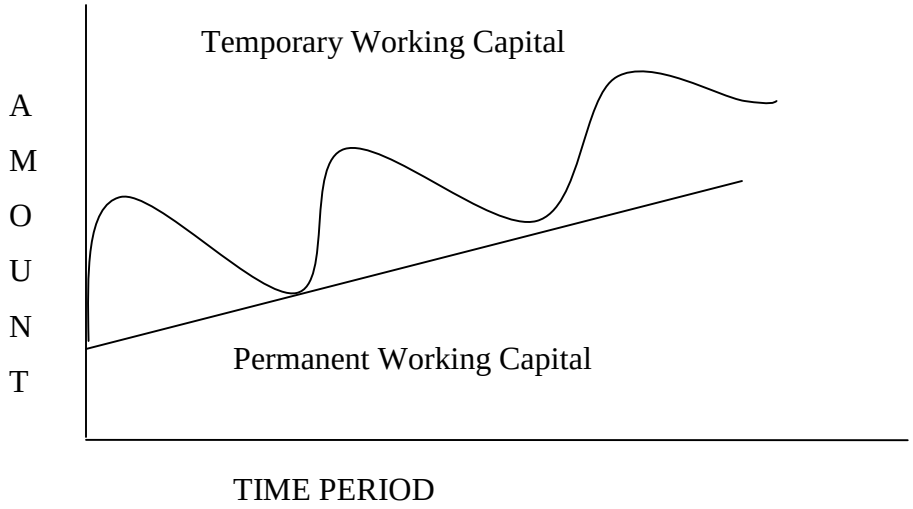

Figure 2.1 Permanent and Temporary Working Capital

Thus the permanent working capital refers to that level of current assets which is required on a continuous basis over the entire year and the temporary working capital represents that portion of working capital which is required over permanent

2.1.5 Need of Working Capital

Efficient management of working capital is an integral part of overall financial management and has a bearing on the objective of the maximization of the owner's wealth. Sufficient profit is needed to achieve this objective. Profit position of the firm depends upon the amount of sale. In other words a good sales program is needed to gain sufficient profit. But the amount of sales shown in the book can not reflect the real income. Some time lag between sales and cash realization is needed. As the operation cycle in this period can not be stopped, some amount of liquid assets is needed to run the operation without interruption. That vary amount of liquid assets is called working capital. Indeed the concepts of working capital (gross and net) are exclusive; rather they are equally significant from the management point of view. However, the firms differ in the management of working capital has been regarded as one of the conditioning factors in the decision making issue. It is no doubt, very difficult to point out as to how much working capital is needed by a particular company, but it is very

essential to analyze and find out the solution to make an efficient use of funds for minimizing the risk of loss to attain profit objectives.

The need for working capital or current assets cannot be overemphasized. The objective of financial decision making is to maximize the shareholders' wealth. To achieve this, it is necessary to generate sufficient profits. However, sale does not convert into cash instantly: there is invariably a time log between the sale of goods and receipt of cash. There is, therefore, sufficient working capital is necessary to sustain sales activity. Technically, this is referred to as the operating or cash cycle. The operating cycle can be said to be at the heart of the need for working capital. "Operating cycle is the time duration required to convert sales". Therefore every firm needs working capital to meet the following motives:

- **The transactional motive**

According to transactional motive, a firm holds cash and inventories to facilitate production and sales operation in regular. Thus, the firm needs the working capital to meet the transaction motive.

- **The precautionary motive**

Precautionary motive is the need to hold cash & inventories to guard against the risk of unpredictable change in demand and supply forces and other factors such a strike, failure of important customer, unexpected slow down in collection of account receivable, cancellation of some order for goods and some other unexpected emergency. Thus, the firm needs the working capital to meet any contingencies in future.

- **The speculative motive**

Speculative motive refers to the desire of a firm to take advantages of following opportunities:

- Opportunities of profit making investment.
- An opportunity of purchasing raw materials at a reduced price on payment of immediate cash.
- To speculate on interest rate and
- To make purchases at favorable price etc.

2.1.6 Working Capital Cycle

Working Capital (net current assets) =Current Assets - Current Liabilities

Factors influencing the level of working capital:

i. The nature of the product: Items such as clothing that must be displayed in order to entice customers require higher inventory levels that those that do not need display

ii. The durability of the product: Companies try to have lower levels of inventories of perishable items or finished products that may become unfashionable

iii. The efficiency of suppliers: If suppliers can supply large quantities at short notice, a business will be able to hold lower inventory levels

iv. Lead-time: If it takes a long time to make a product, companies will be more likely to hold them in the stock

v. Customer expectations: If the customer is prepared to wait, it may be unnecessary to hold inventories; if the customer wants the item immediately, inventories should be held.

vi. Competition: A business needs to match its rivals, so inventory levels are influenced by the policies of competitors

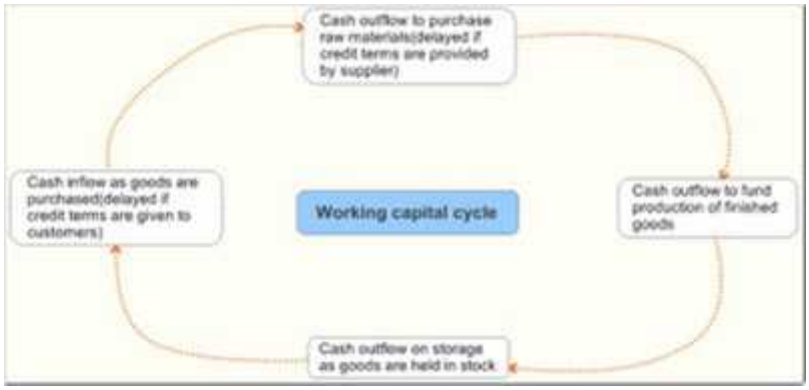

Figure 2.2 Working Capital Cycle

Causes of working capital difficulties:

i. Failure to control inventory levels: as high levels of inventories 'tie up' resources unnecessarily and cost the business money in storage costs
ii. Poor control of receivables (debtors): a firm that allows receivables to delay payments needs to hold higher levels of other current assets, such as cash, as a precaution.
iii. Cash-flow problems: a firm that pays its payables too quickly will damage its working capital.
iv. Poor internal planning and coordination: If individual departments of a firm are unable to meet targets, working capital problems will occur.
v. External factors: Unforeseen changes can affect consumers' tastes. If the business is not able to adapt quickly, this may lead to unsold stock or low levels of cash.

Solving working capital problems:

i. Inventory control : Ideally inventory levels should be maintained at a low level, as this means that less money is tied up in inventories
ii. Low inventory levels: reduce the needs of storage space, and the chances of damage, deterioration and obsolescence.
iii. Receivables control: this can be achieved by:

- Managing credit control
- Chasing up late payers
- Obtaining a credit rating
- Controlling the quality of the service of the product

2.1.7 Working Capital Policy

A firm's net working capital position is not only important as an index of liquidity but it is also used as a measure of the firm's risk. Risk, in this regard, means chances of the firm, being unable to meet its obligations on due date.

Working capital management involves deciding upon the amount and composition of current assets and how to finance these assets. These decisions, involve trade off between risk and profitability. The greater the relative proportion of liquid assets, the lesser the risk of running out of cash all other things being equal. Profitability, unfortunately also will be less. The longer the composite maturity schedule of securities used to finance the firm, the lesser the risk of cash insolvency all other things being equal. Again the profits of the firms are likely to be less. Resolution of the trade off between risk and profitability with respect to these decisions depends upon the risk preferences of management. Working capital policy refers to the firm's basic policies regarding target level of each category of current assets and how current assets will be financed.

So, first of all, the firm has to determine how much funds should be invested in working capital in gross concept. Every firm can adopt different financing policy according to the financial manager's attitude towards the risk-return trade off. One of the most important decisions of finance manager is how much current liabilities should be used to finance current assets. Every firm has to find out the different sources of funds for working capital.

2.1.8 Current Assets Investment Policy

Current assets investment policy refers to the policy regarding the total amount of current assets to be carried out to support the given level of sales. How much a firm will invest in CA will depend on its operating cycle. There are three alternative current assets investment policies-fat cat, lean and mean and moderate.

i. **Fat Policy**

   This is known as relaxed current assets investment policy. In this policy, the firm holds relatively large amount of cash, marketable securities, inventory and receivable to support a given level of sales. This policy creates longer inventory and cash conversion cycles. It also creates the longer receivable collection period due to the liberal credit policy.

ii. Lean and Mean Policy

In lean and mean policy a firm holds the minimum amount of cash, marketable securities, inventory and receivables to support a given level of sales. This policy tends to reduce the inventory and receivable conversion cycle. Under this policy firm follows a light credit policy and bears the risk of losing sales.

iii. Moderate Policy

In this policy, a firm holds the amount of current assets in between the relaxed and restrictive policies. Both risk and return are moderate in this policy.

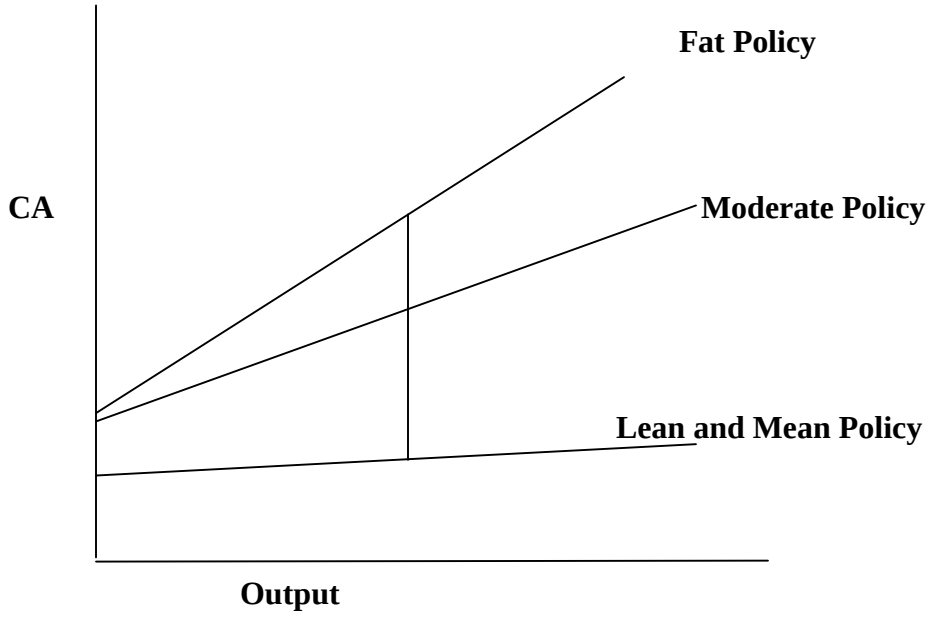

Figure 2.3 Alternative Current Assets Investment Policy

The relationship between output and current assets level for these alternatives is illustrated in above figure. We can see from the figure that the greater the output, the greater the need for investment in current assets to support that output and sales. This relationship is based on the notion that it takes a greater proportional investment in current assets when only a few units of output are produces than it does later on, when the firm can use its current assets more efficiently.

Current Assets Financing Policy

It is the manner in which the permanent and temporary current assets are financed. Current assets are financed with funds raised form different sources. But cost and risk affect the financing of any assets. Thus, current assets financing policy should clearly outline the sources of financing. There are three policies - aggressive, conservative and matching or hedging policies of current assets financing

i. Aggressive Policy

In this policy, the firm finances a part of its permanent current assets with short term financing and rest with long-term financing. In this policy, the liquidity position will be low and the risk will be high. A low liquidity position may expose the firm to opportunity costs. If a firm relies heavily on short-term borrowings, during the period of high money, credit may be rational and the firm may be unable to obtain all the financing its needs.

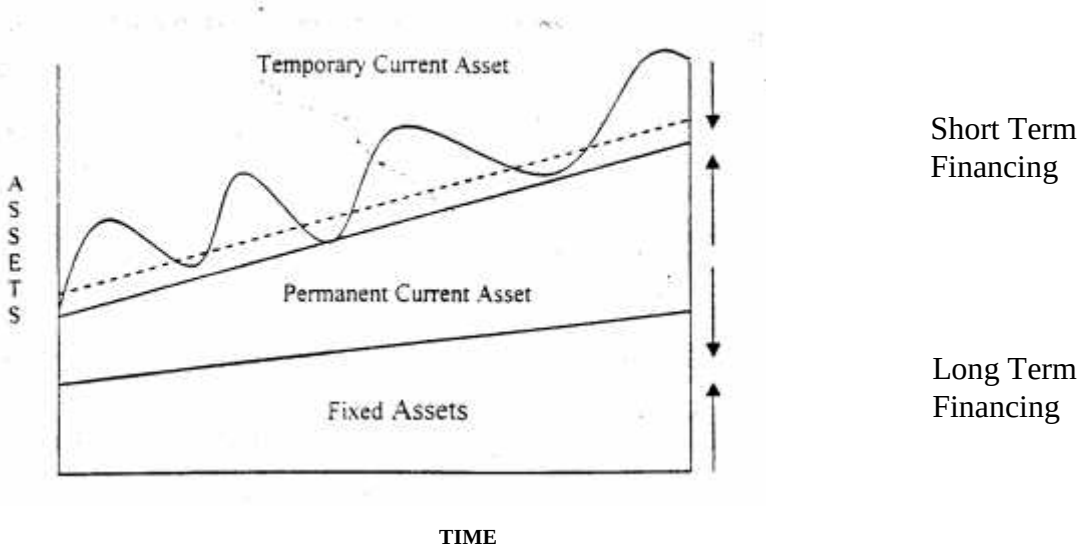

Figure 2.4 Aggressive Financing Policies

Above figure shows that short-term financing finances 50 percent of the permanent current assets.

In general, interest rate increases with time i.e. shorter the time, lower the interest rate. It is because lenders are risk adverse and risk generally increases with the length of lending period. Thus, under normal situation the firm borrows on a short-

term financing rather than long-term financing. On the other side, if the firm finances its permanent current assets by short-term financing, then it runs the risk of renewing the borrowing again and again. Thus continued financing exposes the firm to certain risk. In conclusion, there is higher risk, higher return and low liquidity position under this policy.

ii. Conservative Policy

In this policy, the use of short-term fund is restricted to the emergency situation when there is necessity to invest current assets. Otherwise the long-term fund should be used as far as possible in financing of investment in current assets. However, the cost of financing in this policy will be more, the liquidity will be relatively greater and risk will be minimized.

A firm may adopt a conservative policy in financing its current and fixed assets. The financing policy of the firm is said to be conservative when it depends more on long-term funds for financing needs. Under a conservative plan, the firm finances its permanent assets and a part of temporary current assets with long-term financing. Thus, in periods when the firm has no temporary current assets, it stores liquidity by investing surplus funds into marketable securities. The conservative financing relies heavily on long-term financing and, therefore, is less risky. The conservative financing policy is shown in figure below.

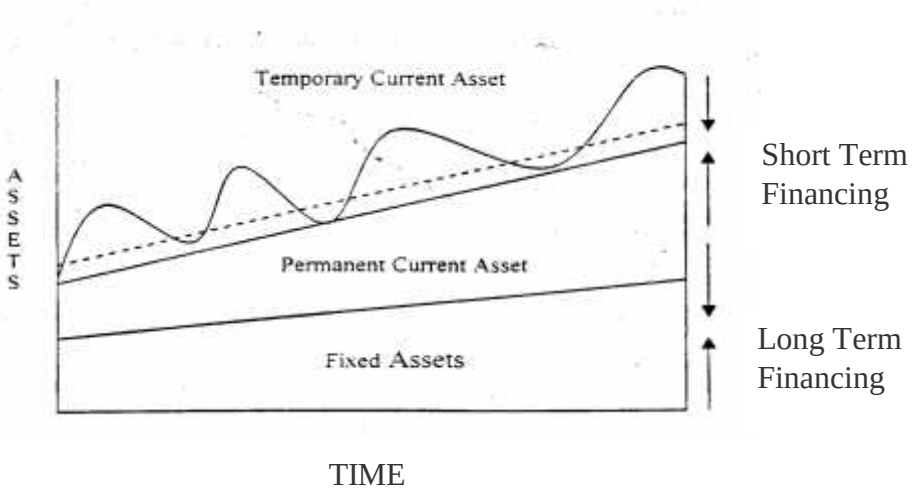

Figure 2.5 Conservative Financing Policy

In above figure, the conservative financing policy is shown. Note that when the firm has its temporary current assets (at the level of slope); these long-term funds released can be invested in marketable securities to build up the liquidity position of the firm.

2.1.10 Financing of Working Capital

The firm's working capital assets policy is never set in vacuum; it is always established in conjunction with the firm's working Capital financing policy. Every financial company requires additional assets whether they are in stable growing conditions. The most important function of financial manager is to determine the level of WC and to decide how it is to be financed. Financing of any asset is concerned with two major factors - cost and risk. Therefore, the financial manager must determine an appropriate financing mix, or decide how CL should be used to finance CA. However, a number of financing mixes are available to the financial manger. He can resort generally three kinds of financing.

i. Long-term Financing

Long-term financing has high liquidity and low profitability. Ordinary share, debenture, preference share, retained earnings and long-term debt of financial institution are major sources of long-term financing.

ii. Short-term Financing

A firm must arrange its short-term credit in advance. The sources of short-term financing of working capital are made credit and bank borrowing. Trade Credit refers to the credit that a customer gets from suppliers of goods in normal course of business. Bank Credit is the primary institutional sources for working capital financing. For the purpose of bank credit, amount of working capital required has to be estimated by the borrowers and banks are approached with the necessary supporting data.

iii. Spontaneous Financing

Spontaneous financing arises from the normal operation of the firms. The two major sources of such financing are trade credit and accruals. Whether trade credit is free of cost or not actually depends upon the terms of trade credit. Financial manger of the firm would like to finance its working capital with spontaneous sources as much as possible. In practical aspect, the real choice of CA financing is either short-term gong-term sources. Thus, the financial manger concentrates his power in short-term versus long-term financing. Hence, the financing of working capital depends upon the working capital policy which is perfectly dominated by management attitude towards the risk-return.

2.1.11 Determinants of Working Capital

The total requirement of working capital is determined by a wide variety of factors. The influence of these factors is different in different business organizations. Perhaps none of them can neglect the management of adequate WC. Therefore; an analysis of the relevant factors should be made in order to determine the total investment in WC the description of the factors which generally influence the WC requirement of the firm is given below.

i. Nature and Size of Business

The working capital requirement of a firm is basically related to size and nature of the business. If the size of the firm is bigger, then it requires more working capital. Trading and financial firms have a very low investment in fixed assets. Contrary to this, public utilities have a very limited need of working capital and have to invest abundantly in fixed assets. Their working capital requirements are nominal.

ii. Manufacturing Cycle

The manufacturing cycle starts with the purchase and use of raw material and completes with the production of finished goods. Longer the manufacturing cycle, larger will be the firm's working capital requirements. An extended manufacturing time span means a larger tie-up of funds in stocks. Thus, if there

are alternative ways of manufacturing cycle should be chosen. Once a manufacturing process has been selected, it should be ensure that manufacturing cycle is completed within the specified period. This needs proper planning and coordination at all levels of activity. Non-manufacturing firms' service and financial enterprises do not have manufacturing cycle.

iii. Production Policy

We just noted that a strategy of constant production may be maintained in order to resolve the working capital problems arising due to seasonal changes in the demand for the firm product. A steady production policy will cause inventories to accumulate during the off season periods and the firm will be exposed to greater inventory costs and risks. Thus, if costs and risks of maintaining a constant production schedules in accordance with changing demand, those firms, whose productive capacities can be utilized for manufacturing varied products, can have the advantage of diversified activities and solve their working capital problems.

iv. Credit Policy

Credit policy also affects the working capital of a firm. Working, capital requirement depends on terms of sales. Different term may be followed by different customers according to their creditworthiness.

v. Operating Efficiency

The operating efficiency of a firm relates to the optimum utilization of resources at minimum costs. The firm cannot effectively contribute to its working capital when the operating efficiency is low. Working capital turnover is improved with a better operation and financial efficiency of a firm. Efficiency of operation accelerates the pace of cash cycle and improves the working capital turnover. It releases the pressure on working capital by improving profitability and improving the internal generation of fund.

vi. Profit Margin

The net profit is a source of working capital to the extent that has been earned in cash. The capacity to generate profit differs from, company to company. In the words of I. M. Pandey, "some firms enjoy a dominant position, due to quality product or good marketing management or monopoly power in the market and earn a high profit margin." Higher profit margin contributes to more working capital. The level of working capital is determined not only by the profit margin, but also by the way of appropriation for taxations, dividend, reserves and depreciation.

vii. Level of Taxes

The level of taxes also influences working capital requirement of a firm. Tax liability in a sense of short-term liquidity is payable cash. Therefore, the provision for tax amount is one of the important aspects of working capital planning. If tax liability increases, it needs to increase the working capital and vice-versa. Besides the above factors there are many other factors also which may have a greater role in determining the size and composition of working capital.

2.2 Review of Related Journals/ Articles

Here, various published and unpublished articles by different experts and journals and bulletins relating to working capital management have been revised. This study is only related with working capital management thus I have considered with working capital only.

Pradhan and Koirala had jointly conducted a study on "Working Capital Management in Nepalese Corporations". They had focused on, evaluation of working capital of selected manufacturing and non-manufacturing corporations of Nepal. They had sampled five manufacturing and six non-manufacturing public companies. This study was concentrated in the size of investment in current assets, significance of current assets management.

The major findings of the study were as follows:

- Investment on total assets had declined over a period of time in both manufacturing corporations. However, the manufacturing corporations had consistently more investment in cash and receivable as compared to non manufacturing corporations.
- Inventory management was of great significance in manufacturing corporations and the management of cash receivable was of great significance in non manufacturing corporations.
- Management of working capital-was more difficult than that of fixed capital and the major motive for holding cash in Nepalese corporation was to provide a reserve for routine net outflows of cash to keep on the production process. (Pradhan and Koirala; 2006).

K. Pradhan, has prepared another article relating to working capital management: He has studied on "The demand" of working capital by Nepalese enterprises". For the analysis, he has selected nine manufacturing companies with the twelve years data. Regression equation has been adopted for the analysis. From the study he has concluded that the earlier studies concerning about the demand for cash and inventories by business firm didn't report unanimous findings. A lot of controversies exits with respect to the presence of economies of scale, roles of capital cost; capacity utilization rates, and the speed with which actual cash and inventories are adjusted to describe cash and inventories respectively. The pooled "regression result slows the presence of economics of scale with respect to the demand for working capital and its various components. The regression results suggest strongly that the demand for working capital and its components is function of both scale and their capital cost.

The estimated results show that the inclusion of capacity utilization variable in model seems to have contributed to the demand function of cash and net working capital only. The effects of capacity utilization on the demand for inventories, receivable, and gross working capital is doubtful. (Pradhan; 2006).

Prof. Manohar K. Shrestha (1983 July)

In his article, "working capital Management in public enterprises: A Study on Financial results and Constraints." he measured ten selected public enterprises working capital needs focusing on liquidity, turnover and profitability position of that public enterprises**.** In the analysis, he found that four public enterprises had maintained adequate liquidity position; two public enterprises had excessive liquidity position and rest four public enterprises had failed to maintain desirable liquidity position. About turnover, two public enterprises had negative working capital turnover, four had adequate turnover, one had high and remaining three public enterprises dot not seem achieve satisfactory turnover of net working capital. Among these, four public enterprises were operating in loss and rests were on profit. After analysis these constraints, he had brought following policy issues.

- ❖ The managers of Public enterprises were being unable to give attention to working capital management.
- ❖ Public enterprises are being unable to show positive relationship between turnover and return on net working capital.
- ❖ There is a lack of suitable financial planning for determining their working capital needs in public enterprises.
- ❖ There exists no proper consistency between liquidity position and turnover of assets.

His suggestive measures to overcome from the above policy issues were;

- Identification of needed funds.
- Regular checks.
- Development of management information system.
- Positive attitude towards risk and return.
- Determination of right combination of short term and long term sources of funds to finance working capital needs.

Mr. Kundan Datta Koirala & Radhe Shyam Pradhan's Study (1983)

Kundan Datta Koirala & Radhe Shyam Pradhan jointly conducted a study on, "working Capital Position of selected Corporations of Nepal". For the study they selected five manufacturing and six non-manufacturing enterprises. The study was concentrated on the size of investment, trends on investment; need to control the investment on current assets management. Published article had used only primary data and distributed 200 questionnaires. The topic of the article was "Some Reflection on Working Capital Management in Nepalese corporation."

Major finding of study were,

- Inventory management was of great significance in manufacturing corporations and the management of cash and receivable was of great significance in non-manufacturing corporations.
- Both working and fixed capital was found to be difficult to manage in manufacturing corporations but in service organizations working capital was found to be more difficult to manage as compared to fixed assets.
- The major reason for holding inventories is to facilitate smooth operation of production and sales.
- Investment in total assets had declined over a period in both manufacturing and non-manufacturing corporations. However, the manufacturing corporations have consistently more investment in cash and receivable as compared to non-Manufacturing Corporation.
- The management of cash involves more problems as compared to the management of the account receivables and inventories. However, inventory management is more problematic to manufacturing corporations and the management of cash and receivables is more problematic in non-manufacturing corporations.
- To provide a reserve for routine net outflows of cash is the major motive for holding cash in Nepalese corporations.
- The major factor affecting the large investment in receivable is found to be the liberal credit policy followed by the Nepalese corporations. The late paying

practice of customer is also responsible for large investment in receivables. However, corporations are reluctant to take inefficient collection of trade credits as one of the major affecting receivables.

Prof. K. Acharya (1985 Jan-March)

In his article on "problems and impediment in the management of working capital in Nepalese enterprises" he said that working capital management, especially in public sector, has been a relatively weak area. He has described operational problems as well as organizational problems faced by the organizations. Some of these problems are;

Operational Problems

- Slow inventory turnover.
- Change in working capital may low impact on profitability.
- Current liabilities can increase largely than current assets.
- They had not followed the conventional proportion of debt and equity as 1:1.
- Absent of apathetic information management system.
- The performance evaluation tools and techniques like break even analysis, funds flows analysis, ratio analysis were either undone of ineffective in most public enterprises.
- Monitoring of the proper functioning of working capital management has never been considered a managerial job.

Organizational Problems

- Lack of regular evaluation of financial results as well as regular internal and external audit system.
- Most of the public enterprises being unable to present their capital requirements with proper justification.
- Functioning of finance department was not satisfactory.
- Some public enterprises are facing the problems of under utilization of capacity.

Mr. Acharya was not satisfied with the performance of enterprises. To make an efficient use of funds for minimizing risk of loss and to attain, Mr. acharya has made some suggestions and recommendations. They are;

- ❖ Public enterprises should take care of negatively affecting policies directives from Nepal government itself.
- ❖ Public enterprise should keep their consumers alive to consume their commodity.
- ❖ Public enterprise should avoid fictitious holding of assets immediately.
- ❖ They are also suggested to avoid the system of crisis decision, which prevailed frequently in their operations.
- ❖ Finance staff must be acquainted with the modern scientific tools used for the presentation and analysis of data.
- ❖ Their level of investment should optimize.

2.3 Review of Related Thesis

Lastly, the views of various items of thesis and dissertation relating to my study which have already been furnished can be reviewed as under some of the dissertation relating to working capital management. Mr. Kumar Pradhan, in his study on working capital policy of manufacturing public enterprises in Nepal sought to sort out of the problems of low economic performance and financial management in manufacturing public enterprises. He also examined the association between the various aspects of working capital policy in financial management and the poor financial performance of manufacturing public enterprises. Hence, this study deal with liquidity position, utilization of working capital, profitability position, source of financing of current assets and determinants of working capital in manufacturing public enterprises. The main findings of the study are as follows:

-) The selected manufacturing public enterprises had sufficient liquidity.
-) The use of CA selects in selected public manufacturing public enterprises was satisfactory and there was high turnover of cash and receivable in comparison of inventory.
-) There was higher use of long-term funds followed by trade creditors, short-term bank loans and operating profit in CA financing.

Ultimately, he had made some suggestions for improvement of working capital management and efficiency in the manufacturing public enterprises. The manufacturing

public enterprises should follow aggressive working capital policy. (Pradhan; MBS Thesis: 2008).

Rajendra Manandhar, in his study on short term financing of Nepalese manufacturing companies examined, the mix financing pattern has followed by Nepalese manufacturing companies. They have not planned how much funds to be rise from which sources. They did not analysis the source and rise the fund whatever they get. They did not care any other things regarding to this sources. The main findings of the study are as follows.

The liquidity position of Nepalese manufacturing companies is not good.

- Working capital management of Nepalese manufacturing companies have to lower and most of the companies have negative working capital.
- The account receivable is in increasing trend during the study period due to poor collection policy of Nepalese manufacturing companies.
- Cash and the ratio of inventory to short-term financing is widely varied among the manufacturing companies during the study period.
- Most of the companies have commonly usage the account payable in financing but they have not effective utilize the account payable. (Manandhar; T.U Thesis: 2007)

Mainali S. k. (2008) has done a research on "Inventory Management and It's Impact on Working Capital Management of Unilever Nepal Limited". This study attempts to focus on Unilever Nepal Ltd. He was concerned with financial analysis of the company by analyzing various ratio of the period of five years. He used secondary data of balance sheet and profit and loss account of the company from 2059/060 to 2063/064. The objectives of his study are as follows.

- To identify the present inventory position of Unilever Nepal Ltd.
- To know the relationship of sales and inventories.
- To identify the problems faced by Unilever Nepal Ltd. in the management of inventory.
- To assess the inventories and their consequences on profitability of Unilever Nepal Ltd.
- To suggest for the better practice of inventory Management.

Major findings of his study were;

- Inventory management and controlled system followed by manufacturing companies are ABC analysis, perpetual inventory management system (physical checking), EOQ etc.
- There are various problems like political crisis, strikes lockout and transportation problem facing by the manufacturing companies regarding the management of inventories.
- The fluctuation in stock of RM during the study period is very high. Defective purchasing policy and poor planning of raw materials are the main responsible factors for such fluctuation. There is no fixed policy of purchasing materials.
- The correlation between inventory and net profit is 0.9373, so it becomes clear that there is positive and high degree of correlation between inventory and net profit. 'T' statistics also indicate that correlation coefficient between inventory and net profit is significant.
- EOQ is not similar during the study period. This type of fluctuation is due to variation of ordering cost and fluctuation in demand but the company has not used EOQ model to manage and control of the inventory.

Mr. Mainali has given following suggestions for the company;

- The company should define its objectives clearly with regarding to its inputs and outputs separately. Quantities and time period should be specified.
- Purchasing plan should be prepared for different types of raw materials and WIP materials with the proper co-operation and coordination among the planning, purchasing, storing, production, marketing and sales department to avoid excessive investment on inventory.
- Specific policy on inventory should be defined and comprehensive system of inventory management has to be introduced.
- Primary problem faced by UNL in production planning are unsuitable inventory and production policy, lack of coordination between sales and production. So the Co. should clarify production and inventory policy.

- ❖ UNL should attempt to use scientific inventory model .UNL should use EOQ model to determine order size, which minimize cost of organization and increase the profitability.

Gurung K. M. (2008) has done a research on "Working Capital Management of Nepal Doorsanchar Company Limited". She was concerned with financial analysis of the company by analyzing various ratio of the period of five years. He used secondary data of balance sheet and profit and loss account of the company from 2001/2002 to 2005/2006. The objectives of his study are as follows.

- ➢ To examine and critically analyze the working capital management of Nepal Telecom.
- ➢ To examine liquidity position and profitability position of Nepal Telecom.
- ➢ To assess the size and growth of working capital, and
- ➢ To recommend viable suggestions to cope up with working capital management shortcomings in Nepal Telecom.

Major findings of her study were;

i. Structure of Working Capital

This section has dealt with the structure or composition of working capital and approximate ratio of cash, inventory and receivables of Nepal Telecom. The observation of the cash and bank to current assets ratio shows that the major portion of current assets is held by cash and bank in Nepal Telecom since the average ratio of cash and bank to current assets is calculated as 53.00%. Since this ratio is too high, it can be stated that the company is facing situations of excess cash and bank balance held idle which is unfavorable for a company. Inventory is another element of working capital which is only stores and spare parts and held a nominal part of current assets since the average inventory turnover ratio is 22.04. This indicates that there is no considerable amount tied up in inventory in Nepal Telecom. Another important element is Account Receivables which represents sundry debtors plus interest accrued on investment. The volume of receivables is fluctuating over the study period.

ii. Efficiency of Working Capital Management

The efficiency of management of working capital is measured through the turnover ratios since the volume of sales in any business organization not only affects the size of working capital but also clearly reflects the efficiency with which assets are managed. The receivables turnover ratios are moderately fluctuating and vary from the lowest 2.34 times and the highest 3.35 times. Likewise, the cash turnover ratio has are moderately fluctuating and vary the lowest 0.51times to 0.89 times during the study period since the rate of increase in the sales volume is lower than that of cash& bank balance. In the three years, cash & bank balance are exceeding net sales by a significant amount. Hence the result is dissatisfactory. The average net working capital turnover is 0.488 times. Since the ratio has decreased from 0.58 times to 0.36 times during the study period, we can say that the company is not utilizing its net working capital effectively. The amount of working capital is exceeding net sales every year. Hence from the analysis, it is revealed that Nepal Telecom has kept excess amount of working capital in comparison to sales which can be considered as the sign of efficient working capital management. Which assets are managed? The receivables turnover ratios are moderately fluctuating and vary from the lowest 2.34 times and the highest 3.35 times. Likewise, the cash turnover ratio has are moderately fluctuating and vary the lowest 0.51times to 0.89 times during the study period since the rate of increase in the sales volume is lower than that of cash& bank balance. In the three years, cash & bank balance are exceeding net sales by a significant amount. Hence the result is dissatisfactory. The average net working capital turnover is 0.488 times. Since the ratio has decreased from 0.58 times to 0.36 times during the study period, we can say that the company is not utilizing its net working capital effectively. The amount of working capital is exceeding net sales every year. Hence from the analysis, it is revealed that Nepal Telecom has kept excess amount of working capital in comparison to sales which can be considered as the sign of efficient working capital management.

iii. Profitability of Working Capital

Return on total assets is positive and not stable but it has highest 12.55 time to 6.88 times over the five year study period. Average return on total assets is 9.90%. The volume of

net profit after tax has increased every year but the return on total assets has fluctuating each year, which signifies that the profitability is not sufficient with compared to the increment in investment in total assets. It clarifies the less effectiveness of utilization of total assets. Another ratio to measure profitability is return on net working capital. From the study, it is found that the return on working capital is continues increased except 2003/04, over the five years. The ratio varies from 13.35 to 27.35 %.From the study; it is found that Nepal Telecom has been utilizing its working effectively since the return on working capital is in increasing trend. Both NPAT and investment are increasing every year and the earning power of capital employed is increasing as well. Profitability is not sufficient with compared to the increment in investment in total assets. It clarifies the less effectiveness of utilization of total assets. Another ratio to measure profitability is return on net working capital. From the study, it is found that the return on working capital is continues increased except 2003/04, over the five years. The ratio varies from 13.35 to 27.35 %.From the study; it is found that Nepal Telecom has been utilizing its working effectively since the return on working capital is in increasing trend. Both NPAT and investment are increasing every year and the earning power of capital employed is increasing as well.

Miss Kesh Maya has given following suggestions for the company;

1. Maintain Optimum Current Assets Variables and Current Liabilities Every Year

   Study showed that besides cash and bank, other variable of current assets and current liabilities also fluctuate moderately. Optimization of this variable is therefore recommended which would maintain a sound liquidity. Nepal Telecom, being a service-oriented organization, does not need so higher liquidity position. Thus it is recommended to stabilize its current ratio near 2:1.It is better for Nepal Telecom to invest such excess amount of current assets in fixed assets to increase its capacity rather than tying up large amount in current assets.

   2. Forecast Current Assets and Current Liabilities Variables with reference to change in Sales and Profit

   One of the shortcomings of Nepal Telecom is that the variables of current assets and current liabilities held under different headings are rather a haphazard

guesswork, without any consideration on its impact on sales and profit of the organization. For instance, the current assets turnover ratio is in decline trend since the growth of net sales every year is very low in comparison to current assets which imply very low utilization of current assets. Hence, the suggestion is to plan current assets and current liabilities variables with respect to change in sales and profit.

3. Maintain Optimum Level of Working Capital

From the analysis, it is revealed that Nepal Telecom has kept excess amount of working capital in comparison to sales since the amount of working capital is exceeding net sales every year. This cannot be considered as the sign of efficient working capital management. Hence it is recommended to Nepal Telecom to maintain optimum level of working capital.

Shrestha G. (Master Degree Thesis, Shanker Dev Campus, T .U. 2009) has carries out his study on "Working Capital Management of Nepalese Commercial Bank in Nepal (A Case Study of EBL and SCBNL)". Her objective was to evaluate working capital of the banks and analyze their assets structure and their implications, to analyze of working capital trend position of selected Bank, to analyze the financial position of these selected banks by using different tools and techniques, to shed light on creation and mobilization of fund in EBL and SCBNL, to find out suggestions and recommendations on the basis of their applied system and financial position. She has taken five year study period and applied the secondary data.

The major findings of the Shrestha's study are as follows;

- The total assets turnover ratio of the banks is decreasing with fluctuated. The highest total assets turnover ratio of SCBNL is 0.072 and lowest ratio is 0.067. Similarly, the highest total assets turnover ratio of EBL is 0.08 and lowest ratio is 0.06.
- The capital employed turnover ratio of EBL is fluctuating over the study period but SCBNL is slowly decreased during the study period. The highest capital employed turnover ratio of EBL is 1.75 and lowest ratio is 1.12 in the fiscal year

2062/63 and 2063/64 respectively as well as SCBNL's highest capital employed turnover ratio is 1.10 and lowest ratio is 0.94 in the fiscal year 2059/60 and 2063/64 respectively.

- The return on loans and advances ratio of the banks is fluctuating over the study period. The highest return on loans and advances ratio of EBL is 2.44 and lowest ratio is 1.92 as well as SCBNL's highest return on loans and advances ratio is 8.90 and lowest ratio is 6.59 in the fiscal year 2059/60 and 2063/64 respectively.
- The return on total deposit ratio of the banks is fluctuating over the study period. The highest return on total deposit ratio of EBL is 1.78 and lowest ratio is 1.41 in the fiscal year 2060/61 and 2059/60 respectively as well as SCBNL's highest return on total deposit ratio is 2.86 and lowest ratio is 2.54 in the fiscal year 2062/63 and 2060/61 respectively.
- The return on total assets ratio of the EBL and SCBNL is fluctuating over the study period. The highest return on total assets ratio of EBL is 1.50 and lowest ratio is 1.17 in the fiscal year 2062/63 and 2059/60 respectively as well as SCBNL's highest return on total assets ratio is 2.56 and lowest ratio is 2.27 in the fiscal year 2062/63 and 2060/61 respectively.
- The coefficient of correlation between current assets and current liabilities is almost 1, so that there is high degree of positive correlation between two variables of the selected banks. It means correlation of coefficient between current assets and current liabilities of the selected banks has perfect correlation. Correlation of coefficient (r) is greater than 6P.E. Therefore it reveals that relationship between current assets and current liabilities is significant.
- The coefficient of correlation between total deposit and net profit is almost 1, so that there is high degree of positive correlation between two variables of the selected banks. It means correlation of coefficient between net profit and total deposit of the selected banks has perfect correlation. Correlation of coefficient (r) is greater than 6P.E. Therefore it reveals that relationship between total deposit and net profit is significant.
- The coefficient of correlation between total deposit and loans & advances of the selected banks is nearly 1 so, high degree of positive correlation between these

two variables. It also reveals that relationship between net profit and total deposit of the selected banks are closer to perfect correlation. Correlation of coefficient (r) is greater than 6P.E. Therefore it reveals that relationship between total deposit and loans & advances is significant.

Miss Shrestha has given following suggestions for the company;

- The banks, especially the SCBNL and EBL has to maintain adequate cash & bank balance to total deposits ratio, as prescribed by NRB, which is 5% of total deposits.
- EBL is suggested to improve its profitability position, and to improve its overall efficiency and returns to its shareholders.
- SEBNL has been suggested to improve its deposits and credits to increase its volume of banking operations.
- The banks should finance superior quality of assets for greater profits, especially for SCBNL.
- The banks should maintain positive relationship between loans and advances and deposits in coming years also, to maximize benefits.
- Since the economy of the country has become weaker since the last decade, the studied banks are advised to concentrate more on risk free securities and low risk loans.

2.4 Research Gap

Many research studies have been conducted by the different students, experts and researchers about working capital management. Some studies are related to a case study of a single manufacturing company and some are comparative in nature. Keeping in view, the fact that there is no study of working capital management particularly in Nepalese commercial bank Thus, "Working capital management", a case study of Agricultural Development Bank Limited has been taken for the study of working capital position and to suggest overcoming form such difficulties.

CHAPTER III

RESEARCH METHODOLOGY

Research is a systematic and organized effort to investigate facts and methodology is the method of doing research in well manner and also the research for gaining the knowledge about method of goal achievement, which we desire is known as research methodology. So research methodology means the analysis of specific topic by using proper method. In other words research methodology is a process of arriving to the solution of problem through planned and systematic dealing with collection, analysis and interpretation of the facts and figures. "Research methodology refers to the various sequential steps to adopt by a researcher in studying a problem with certain objectives in view". Therefore, we can conclude that research methodology tries to make clear view of the method and process adopted in the entire aspect of the study. It is also considered as the path from which researcher can systematically solve the research problem.

In this chapter, efforts have been made to present and explain specific research design for the shake of attaining the research objective. It describes the methods and process applied in the entire subject of the study. It is the plan, structure and strategy of investigation conceived to answer the research questions. It covers quantitative methodology using financial and statistical tools. The study is mainly based on secondary data gathered from respective annual reports of concerned banks especially from profit and loss account, balance sheet and other publications made by the banks. It consists of research design, population and sample study, sources of data, data processing procedure and tools and technique of analysis of data.

3.1 Research Design

Selection of appropriate research design is necessary to meet the study objectives of any research. "Research design is a plan structure and strategy of investigation conceived so as to obtain answer to research questions and to control variances".

The study aims to portraying, accurately on the working capital (or current assets and current liabilities) and its impact on overall financial position of the bank. It is based on recent 5 years data from F/Y 2064/065 to F/Y 068/69. The study has been conducted to assess the existing situation of working capital management of commercial banks of Nepal and describe the situation and events occurring at present. The research design followed for this study is basically a historical, analytical and descriptive.

3.2 Population and Sample

At present there are 31 commercial banks including government owned, private and joint venture banks in Nepal. Due to time and resource factors, it is not possible to study all of them regarding the study topic. Therefore, sampling will be done selecting from population. Agricultural Development Bank Ltd is selected as a sample for the study an analysis.

3.3 Nature and Sources of Data

The study is mainly based on the secondary data. The main sources of data are the financial statements and reports of ADBL, different circular regarding rules and regulations of ADBL, NRB's directives to the commercial banks, reports of the corporations coordination council, other published and unpublished materials, magazines and newspapers, some ideas and information have been collected from the discussion with managers of ADBL.

3.4 Data Gathering Procedures

As this study is mostly based on secondary data, therefore, data were directly collected from the information department of concerned bank, research department of the Nepal Rastra Bank and from different web sites.

3.5 Data Processing Procedures

Data collected from various sources were in raw form. They were classified and tabulated as per the nature of the study and in accordance of the data. Sample percentage tool was

used as arithmetic tool and different financial and statistical were also used to analyze the collected data.

3.6 Tools and Techniques of Analysis

Under this study, financial as well as statistical tools have been used to analyze the gathered data and information.

3.6.1 Financial Tools

In this research study various financial tools are employed for the analysis. The analysis of this study is based on following financial tools:

i. Working Capital

Working capital is used by lenders to help gauge the ability for a company to weather difficult financial periods. Working capital is calculated by subtracting current liabilities from current assets. Due to differences in businesses and the fact that working capital is not a ratio but an absolute amount, it is difficult to predict what the ideal amount of working capital would be for the business.

ii. Liquidity Ratios

Liquidity ratios indicate the firm's ability to meet it maturing short-term obligations. Your liquidity ratios measure your company's ability to generate cash to meet your short term financial commitments. The current ratio measures debts over the next 12 months, while the quick ratio measures liquidity available for immediate demands. As stated, a ratio of 1.0 or greater is generally acceptable, but depends on the nature of the company. A comparatively low ratio can mean that your company might have difficulty meeting your obligations and may not be able to take advantage of opportunities that require quick cash. A too-high ratio may mean that your capital is being underemployed. You may want to invest your capital

- **Current Ratio:** Current ratio measures the short-term solvency, i.e. its ability to measure short-term obligation. In other words, current ratio measures raise ability to pay debts.

  As a measure versus creditors versus current assets, it indicates each type of current assets available by dividing current assets by current liabilities.

$$\text{Current Ratio (CR)} = \frac{\text{Current Assets (CA)}}{\text{Current Liabilities (CL)}}$$

  Current assets include cash, and those assets which can be converted into cash within a year, such as debtor, receivable, cash and bank balance, prepaid expenses inventory etc. Current liabilities mean all obligations maturing within a year. Under the current liabilities include secondary creditor, provision for taxation, bank loan, miscellaneous current liabilities and provision.

- **Quick Ratio:** Quick ratio establishes a relationship between quick or liquid assets and current liabilities. An asset is liquid if it can be converted into cash immediately or reasonably soon without a loss of value. Cash is the most liquid asset. Other assets which are considered to be relatively liquid and included in quick assets are book debts and marketable securities. This quick ratio can be found out by dividing the total of quick assets by total current liabilities.

$$\text{Quirk Ratio (QR)} = \frac{\text{Quick Asset (QA)}}{\text{Current Liabilities (CL)}}$$

- **Cash and Bank Balance to Deposit (Excluding fixed deposit) Ratio:**

  This ratio- is employed to measure whether bank and cash balance is sufficient to cover its current calls margin including deposits. It is calculated by dividing cash and bank balance by saving margin and current deposits (excluding fixed deposit). This ratio is calculated by using following formula:

$$\text{Cash and Bank Balance to Deposit Ratio} = \frac{\text{Cash Bank Balance}}{\text{Deposit (Except fixed deposit)}}$$

- **Saving Deposit to Total Deposit Ratio:**

  Saving deposit is interest bearing short-term deposit, the ratio is developed in order to find out the proportion of saving deposit; which is interest bearing and short-term in nature. It is find out by dividing the total amount of saving deposits by the amount of total deposit, which is given as follows:

  $$\text{Saving Deposit to Total Deposit Ratio} = \frac{\text{Saving Deposit}}{\text{Total Deposit}}$$

iii. Activity or Turnover Ratio

Activity ratios are intended to measure the effectiveness to employment to the resources in a business concern. Throughout these ratios, it is known whether the funds employed have been used effectively into the business activities or not. The following are the ratios employed to analyze the activeness of the concerned bank.

- **Loan and Advances to Total Deposit Ratio:** This ratio assesses to what extent, the banks are able to utilize the depositor's funds to earn profit by providing loans and advances. It is computed dividing the total amounts of loans and advances by total deposited funds. The formula used to compute this ratio is as:

  $$\text{Loan and Advance to Total Deposit Ratio} = \frac{\text{Loan and Advances}}{\text{Total deposit}}$$

  High Ratio is the symptom of higher or proper utilization of funds and low ratio is the signal of balance remained utilized or idle.

- **Loan and Advances to Fixed Deposit Ratio:**

This ratio examines that how many times the funds is used in loans and advances against fixed deposits. For commercial banks, fixed deposits are long-term interest bearing obligations, whereas investment in loans and advances are the main sources of earning. This ratio is computed dividing loans and advances by fixed deposit as under. A low ratio indicates idle cash balance. It means total funds not properly utilized. This ratio is computed as follows:

$$\text{Loan and Advance to fixed Deposit Ratio} = \frac{\text{Loan and Advances}}{\text{Fixed deposit}}$$

This ratio examines to what extent the fixed deposits are utilized for income earning purpose.

- **Loan and Advances to Saving Deposit Ratio:**

This ratio assesses, how many times the fund is used to loans and advances against saving deposits. Saving deposits are interests bearing short-term obligation and the major sources of investment in loan and advances for income generation and the major sources of investment in loan and advances for income generating purpose by CBs. This ratio indicates how many times the short-term interest bearing deposits are utilized for Venerating the income, is calculated, dividing the amount of loan and advances by total deposit in saving account. The following formula is used to determine this ratio as:

$$\text{Loan and Advance to Saving Deposit Ratio} = \frac{\text{Loan and Advances}}{\text{Total Saving Deposit}}$$

iv. Leverage Ratio

Leverage refers to the ratio of debt to equity in the capital structure of the firm. Debt and equity are long-term obligations and remaining parts in the liability side of the balance sheet are termed as short-term obligations. Both types of

obligations are required in forming the capital structure of the firm. The long-term financial position of the firm-is determined by the leverage or capital structure. The different leverage ratios are maintained to measure the financial risk or proportion of outsiders fund and owner's capital used the firm.

- **Long term Debt to Net worth Ratio:**

Long term debt refers to the amount of fixed deposits and loans of the banks. The ratio measures the proportion of outsiders and owner's fund employed in the capitalization of banks. It is calculated by dividing the fixed obligations of the banks by owner's claim. It is calculated by using following formula:

$$\text{Long term Debt to Net worth Ratio} = \frac{\text{Long term Debt}}{\text{Net Worth}}$$

- **Net Fixed Assets to Long Term Debt Ratio:**

Net fixed assets are applied to- both physical and financial assets. This ratio is calculated to find out how many times net fixed assets are compared to the fixed liabilities. It is calculated as follows:

$$\text{Net Fixed Assets to Long term Debt Ratio} = \frac{\text{Net fixed Asset}}{\text{Long term Debt}}$$

v. Profitability Ratio

Profitability ratios indicate the degree of success in achieving desired profit. Various profitability ratios are calculated to measure the operating efficiency of business enterprises. These ratios are mostly used to compare the performance of the bank in different years. Through profitably ratios the lender and investors want to decide whether to invest in a particular business or not. Some of the important profitability ratios used is as follows:

- **Interest Earned to Total assets Ratio:**

  It is the ratio, which formed to find out the percentage of the interest earned to total assets. This is derived by dividing the amount of interest earned by the total assets of the firms.

  $$\text{Interest Earned to Total Assets' Ratio} = \frac{\text{Interest Earned}}{\text{Total Assets}}$$

- **Net Profit to Total Assets Ratio:** This ratio is very much crucial for measuring the profitability of funds invested in the bank's assets. It measures the return on assets is computed by using following formula:

  $$\text{Net Profit to Total Assets Ratio} = \frac{\text{Net Profit after Tax}}{\text{Total Assets}}$$

- **Net Profit to Total Deposit Ratio:**

  This ratio is used to measuring the internal rate of return form deposits. It is computed dividing the net profit by total deposits. Higher ratio indicates the return form investment on loans and advances are desirable and lower ratio indicates the funds are not properly mobilizing. The following formula is used as:

  $$\text{Net Profit to Total Deposit Ratio} = \frac{\text{Net Profit after Tax}}{\text{Total Deposit}}$$

- **Cost of Services to Total assets Ratio:**

  A sound management always tries to utilize its lager amount of assets with minimum cost. This ratio is useful in measuring the assets utilization with cost of services. The ratio can be expressed as below:

  $$\text{Cost of Services to Total Assets Ratio} = \frac{\text{Cost of Services}}{\text{Total Deposit}}$$

3.6.2 Statistical Tools

Generally the statistical tools are used for attaining accuracy on analysis and study. The major tools of statistics like Mean, Standard Deviation, Coefficient of Variance, Coefficient of Correlation, Probable Error and different Charts are used to present effectively the analysis done.

- $\text{Mean}(\overline{X}) = \frac{X}{n}$

Mean is used for measurement of central tendency. The average measures which condense a huge mass of data into single value representing the whole data. Mean is average of data which is the typical value around which most of the data tend to cluster.

- $\text{Standard Deviation}(\pm) = \sqrt{\frac{(X - \overline{X})^2}{N}}$

The measurement of the scatter-ness of the mass of figures in a series about an average is known as dispersion. Standard deviation is the absolute measure of dispersion in which the drawbacks presents in other measures of dispersion are removed. Standard deviation is mean of the mean. A small standard deviation means a high degree of uniformity of the observations as well as homogeneity of a series, a large standard deviation of different ratios is calculated.

- $\text{Coefficient of Variance}\ (C.V.) = \frac{\pm}{\overline{X}} \times 100$

The coefficient of Variance is the relative measure of dispersion, comparable a cross distribution which is defined as the ratio of the standard deviation to the mean expressed in percent. It is used for comparing variability of two series or set of data with the same of different units and is expressed in percent since it is independent of units. So, two distributions can bitterly be compared with the help of coefficient of variance for their variability. Less the C.V., more will be the uniformity; consistency etc. and more the C.V. less will be the uniformity, consistency etc.

J Correlation Coefficient (r) $X \frac{N\sum xy - \sum x \sum y}{\sqrt{N\sum x^2 - (\sum x)^2}\sqrt{N\sum y^2 - (\sum y)^2}}$

Or

$$(r) = \frac{\sum xy}{\sqrt{\sum x^2 \sum y^2}}$$

The correlation is the statistical tool that we can use to describe the degree to which one variable in linearly related to another. The coefficient of correlation measures the degree of relationship between two sets of figures. Among the various methods of finding out coefficient of correlation, Karl Person's (product moment) method is applied in this study. The result of coefficient of correlation always lies between '+1' of '-1'. After getting the value of r, care should be taken to interpret; otherwise wrong conclusion may be obtained. However, the following general rules are mentioned for interpreting the value of r.

Interpretation,

- When r = 1, there is perfect positive correlation between two variables.
- When r = -1, there is perfect negative correlation between two variables.
- When r = 0, there is no correlation or the variables are uncorrelated.
- When 'r' lies between 0.7 and 0.999 (-0.7 to -0.999), there is high degree of positive, (or negative) correlation between two variables.
- When 'r' lies between 0.5 and 0.699, there is moderate degree of correlation between two variables.
- When 'r' is less than 0.5, there is low degree of correlation between two variables.

J Probable Error (*P.E.*) $X 0.6745 \mid \frac{1 - r^2}{\sqrt{n}}$

Probable Error of the correlation coefficient denoted by P.E. is the measure of testing the reliability of the calculated value of 'r'. If 'r' be the calculated value of r from a sample of n pair of observation, then P.E. is defined as above. It is used in interpretation whether calculated value of 'r' is significant of not.

Where,

r = Correlation co-efficient

n = Number of pairs of observations

- P. E. is used to interpret whether the calculated value of r is significant or not.
- If r < P.E., it is insignificant. So, perhaps there is no evidence of correlation.
- If r > P.E., it is significant.
- If P.E.< r < 6 P.E., is nothing can be concluded

CHAPTER IV

DATA PRESENTATION AND ANALYSIS

The major objective of this study is to evaluate the working capital position of Agricultural Development Bank Limited. The other objectives of this study are to throw light on the importance of the proper management of working capital and to make suggestion about how to manage working capital of Agricultural Development Bank Limited from the long-range view point. In this chapter relevant data and information of working capital as well as financial performance of ADBL presented and analyzed accordingly. Date of the years 064/065 to 068/069 (2007/2008 to 2011/2012) have been presented and analyzed. It covers to analyze the ratio as well as trend and composition of working capital which means current assets, liquidity, current liabilities, turnover, leverage and profitability of ADBL. It also uses correlation analysis. With the help of these analyses, we can know the working capital as well as financial position of ADBL.

4.1 Working Capital

Working capital means current assets minus current liabilities. Working capital measures how much in liquid assets a company has available to build its business. The number can be positive or negative, depending on how much debt the company is carrying. In general, companies that have a lot of working capital will be more successful since they can expand and improve their operations. Companies with negative working capital may lack the funds necessary for growth also called net current assets or current capital. Therefore,

Working Capital = Current Assets - Current Liabilities

4.1.1 Components of Current Assets

To operate the business, different kinds of assets are needed. For the day Lo day business operation different types of current assets are required. The composition of current assets or the main components of current assets at ADBL cash and bank balance, loan and advances and government securities. Miscellaneous current assets are also a component of current assets. Prepaid expenses, outstanding income like interest receivable and other current assets are included in miscellaneous current assets. The following table shows the amount of cash and bank balance, loan and advances, government severities and miscellaneous current assets of Agricultural Development Bank Limited.

Table 4- 1

Components of Current Assets of ADBL (Rs. In Millions)

F/Y	Cash & Bank Balance	Loan and Advances	Government Securities	Total CA
2064/65	905.24	30,589.43	1,806.73	33,301.39
2065/66	1,413.97	32,603.10	2,717.81	36,734.88
2066/67	1,366.73	33,876.96	1,759.47	37,003.16
2067/68	1,581.09	34,459.92	2,553.27	38,594.29
2068/69	2,057.01	39,427.04	3,280.01	44,764.07

Sources: Appendix 1 – Financial Summary of ADBL

Above table 4-1 depicts that the components of current assets of ADBL consists cash and bank balance, loan and advances and government securities. In F/Y (F/Y) 2064/65, total current assets of the bank was amounted to Rs.33,301.39 million which included Rs. 905.24 million of cash and bank balance, Rs. 30,589.43 million of loan and advances and Rs. 1,806.73 millions of government securities. The CA of the bank increased subsequent F/Ys. Finally the CA of the bank in F/Y 2068/69 increased and reached to 44.764.07, which included Rs. 2,057.01 million, Rs. 39,427.04 million & Rs. 3,280.01

million of cash and bank balance, loan and advances & government securities respectively.

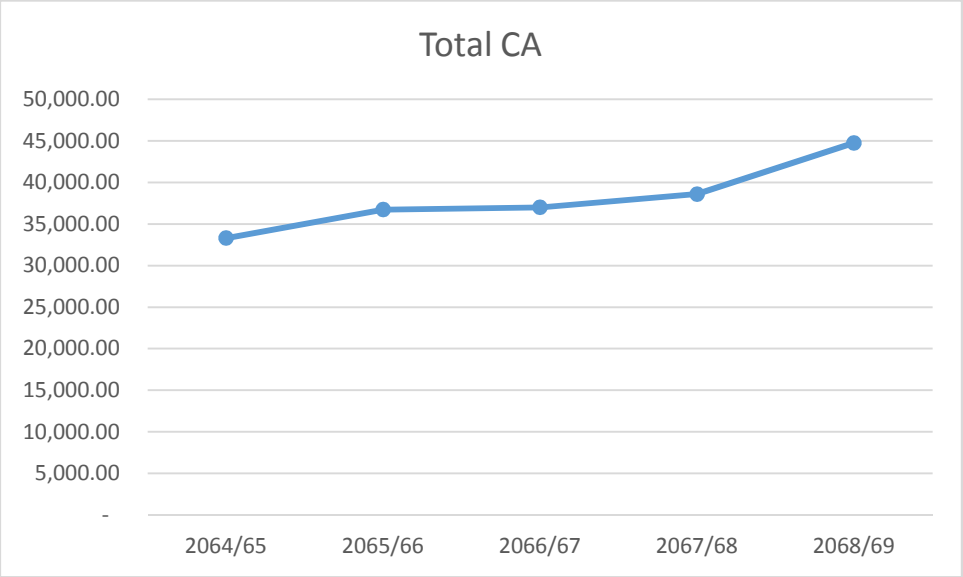

Figure 4. 1 Components of Current Assets of ADBL

As stated in above figure 4.1 the current assets of the ADBL increasing gradually up to final year 2068/69.

4.1.2 Components of Current Liabilities

Current liabilities is a short-term obligation which is payable within a year. The composition of current liabilities or the main components of current liabilities at ADBL are deposit, short term loans, and bills payable and miscellaneous current liabilities. Tax provision, staff bonus, dividend payable and other current liabilities are included in miscellaneous current liabilities. The following table shows the amount of deposit and other accounts, short term loans, bills payable and miscellaneous current liabilities of ADBL.

Table 4- 2

Components of Current Liabilities of ADBL (Rs. In Millions)

F/Y	Deposit & Other A/C	Bills Payable	Short Term Loans	Total CL
2064/65	32,553.83	-	-	32,553.83
2065/66	34,707.28	-	-	34,707.28
2066/67	33,902.57	-	2,300.00	36,202.57
2067/68	34,394.63	-	2,300.00	36,694.63
2068/69	46,178.81	-	2,300.00	48,478.81

Sources: Appendix 1 - Financial Summary of ADBL.

In above table 4-2, we can find that the component of current liabilities which consists deposit and other accounts, bills payable and short term loan. As stated in above table total CL of ADBL was Rs. 32,553.83 million in F/Y 2064/65. The CL increased in F/Y 2065/66 and reached amounted to Rs. 34,707.28. Likewise, in F/Y 2066/67, the CL of ADBL was also increased amounted to Rs. 36,202.57 million. At the end of F/Y 2068/69, the current liabilities of ADBL are Rs. 48,478.81 million, which increased drastically.

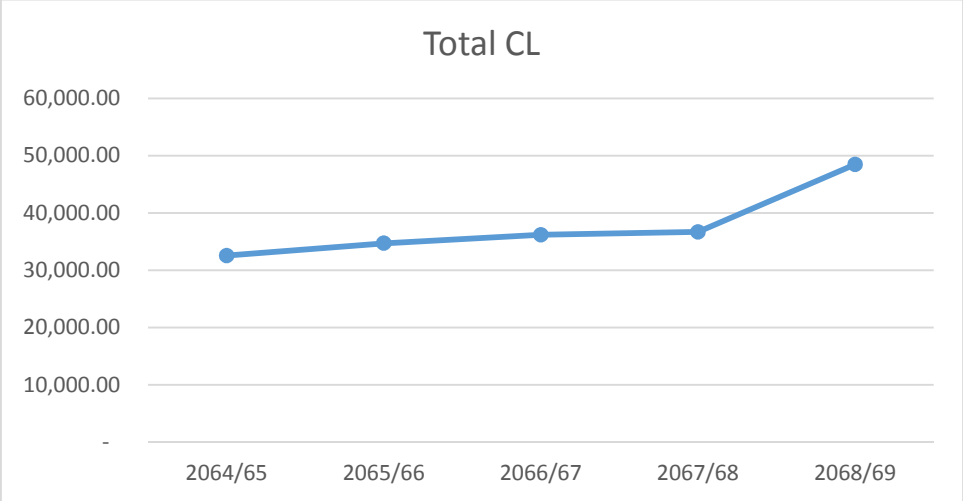

Figure 4. 2 Components of Current Liabilities of ADBL

As stated in above figure 4-2 the current liabilities of the ADBL increasing gradually up to F/Y 2068/69.

4.1.3 Working Capital of ADBL

The working capital has to be regarded as one of the conditioning factors in the long range analysis and decision making to achieve the goal of overall business, the determinants of working capital management should be as accurate as possible, it means money invested on working capital should be neither more nor less because both the position of working capital affects not only liquidity but also profitability of the organization. The investment decision should be made on any type of current assets by considering their role in bank, and determining which one is more beneficial to the bank and which is not. The following table shows the amount of working capital of ADBL of the study period.

Table 4- 3

Working Capital of ADBL (Rs. In Millions)

F/Y	Total CA	Total CL	WC = CA - CL
2064/65	33,301.39	32,553.83	747.57
2065/66	36,734.88	34,707.28	2,027.60
2066/67	37,003.16	36,202.57	800.59
2067/68	38,594.29	36,694.63	1,899.66
2068/69	44,764.07	48,478.81	(3,714.74)

Sources: Appendix 1 - Financial Summary of ADBL

In above table 4-3, no doubt it shows that the increment or decrement of working capital in different study period by different level. The ADBL was able to increase working capital from Rs. 747.57 million to Rs. 2,027.60 million from the F/Y 2064/65 to 2065/66. Inversely, in F/Y 2066/67 it decreased and reached to 800.59 million. In F/Y 2067/68 it

drastically increased to 1,899.66 million, and at the end of study period, working capital of the bank was drastically decreased to Rs. 3,714.74 million.

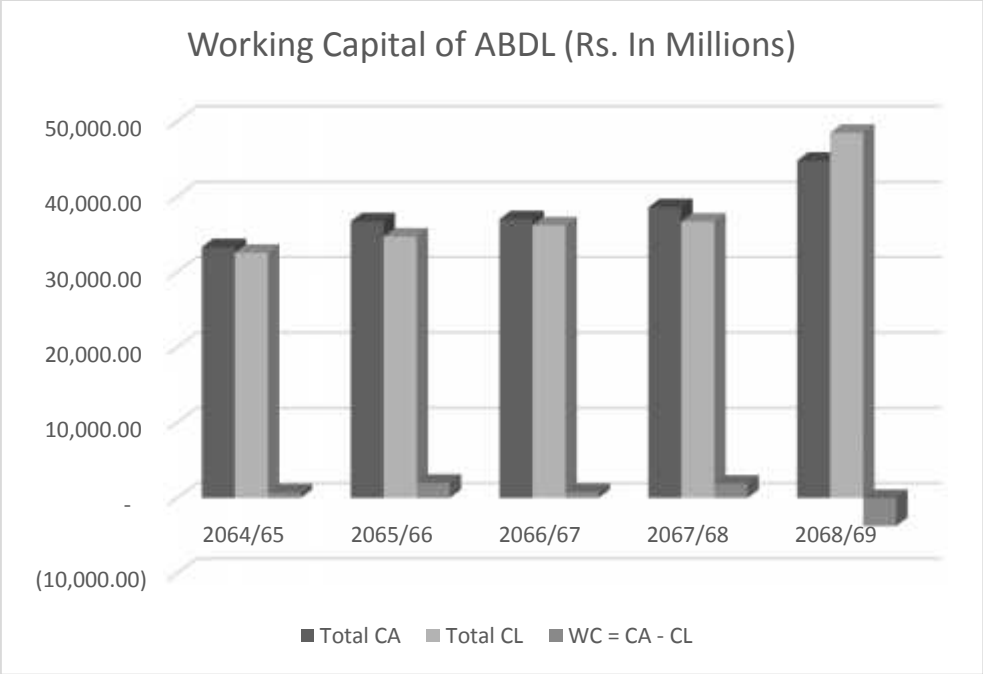

Figure 4. 3 Working Capital of ADBL

As stated in above figure 4.3, the working capital of the ADBL is increasing and decreasing trends up to F/Y 2067/68 but it drastically decreased in F/Y 2068/69. The working capital depicts the liquidity position of any organization i.e. higher the working capital higher the liquidity and vice versa. Therefore, above figure states that the liquidity of the ADBL has been increasing and decreasing over different F/Y.

4.2 Ratio Analysis

Ratios are used to create comparisons within any company's performance or within any particular industry, by region, country, or globally. Comparisons may say a lot about any company's financial health and can uncover trends as well as pinpoint possibilities for improvement. In other words, to evaluate the financial conditions and performances for a firm, the financial analyst needs certain yardsticks. Experienced and skilled analysts would obtain a better understanding to the financial conditions and performance of the

firm from the analysis and interpretation of various ratios than from analysis of the financial data. Thus, we can conclude that the ratio analysis is the powerful financial tools to measure the financial performance of the bank.

It is important to analyze trends in ratio as well as their absolute levels, for the trends give clue to whether the financial situation is improving or whether it is deteriorating. In other words trend analysis of ratios indicates the direction of changes. The significance of a trend analysis of ratio lies in the fact that the analyst can know the direction of movement, i.e. whether the movement, is favorable or not.

4.2.1 Liquidity Ratio

Liquidity, ratio indicates the company's ability to pay its short term debts, by measuring the relationship between current assets i.e. those which can be turned into cash against the short-term debt value. Liquidity of any business organization is directly related with working capital or current assets and current liabilities of that organization. In other words, one of the main objectives of working capital management is keeping sound liquidity position. Bank is a different organization which is engaged in mobilization of funds. So, without sound liquidity position, bank is not able to operate its function. To measure the bank's solvency position of ability to meet its short-term obligation, various liquidity ratios are calculated and to know the trend of liquidity, trend analysis of major liquidity ratios have been considered.

4.2.1.1 Current Ratio

This ratio indicates the current short term solvency position of bank. Higher current ratio indicates better liquidity position. In other words, current ratio represents a margin of safety, i.e. a caution of protection for creditors and the highest the current ratio, greater the margin of safety, large the amount of current assets in relation to current liabilities more the banks ability to meet its current obligations. It is calculates as follows:

$$\text{Current Ratio (CR)} = \frac{\text{Current Assets (CA)}}{\text{Current Liabilities (CL)}}$$

The following table shows the current ratio to compare the working capital management of ADBL.

Table 4- 4

Current Ratio of ADBL (Rs. In Millions)

F/Y	CA	CL	Ratio
2064/65	33,301.39	32,553.83	1.02
2065/66	36,734.88	34,707.28	1.06
2066/67	37,003.16	36,202.57	1.02
2067/68	38,594.29	36,694.63	1.05
2068/69	44,764.07	48,478.81	0.92
Average			1.01

Sources:-Appendix 1 - Financial Summary of ADBL

The above table 4-4 depicts that the current assets of ADBL are constant increasing in all study period up to final year. Similarly, a current liability of the bank has also been gradually increasing up to final year. Current ratio of ADBL is fluctuating over different years. The highest current ratio is 1.06 in the F/Y 2065/66. The lowest current ratio is 0.92 in 2068/69 F/Y. The average current ratio of ADBL is 1.01.

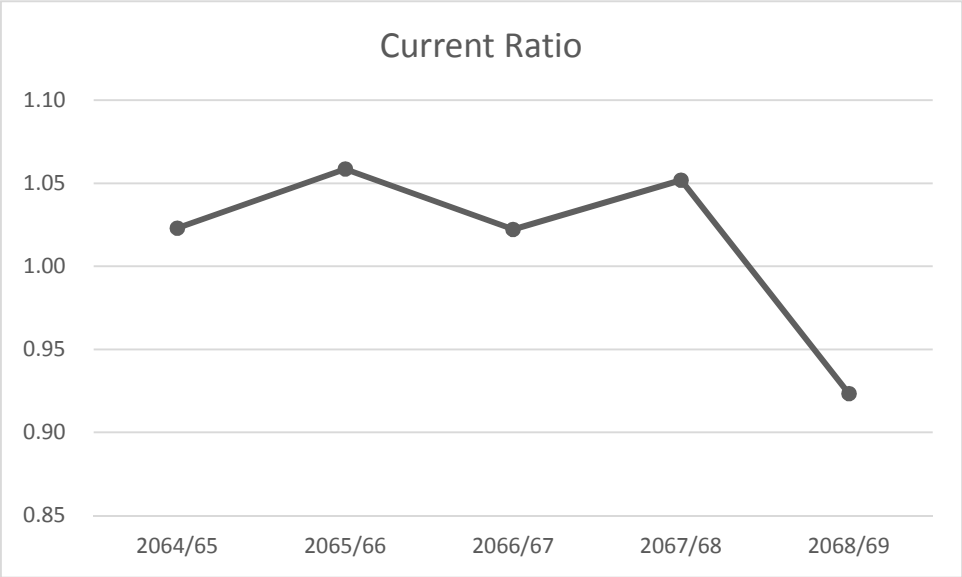

Figure 4. 4 Current Ratio ADBL

The above figure 4.4 depicts that the trend line of ADBL is fluctuating in all F/Y and it is not remain increasing or decreasing constantly in any F/Y, which implies the current ratio of ADBL is fluctuating.

4.2.1.2. Quick Ratio (Acid - Test Ratio)

Quick ratio is the relationship between current assets readily convertible into cash (usually current assets less stock) and current liabilities. A sterner test of liquidity, in other words, quick ratio is the same as the current ratio, except that it excludes inventories which are considered the least liquid portion of current assets. It provides a more penetrating measure of liquidity than does the current ratio. Rule of thumb is 1:1 for the quick ratio or acid test ratio so that, if a business has quick ratio for at least 100 %, it is considered a fairly good current financial position. Quick ratio is a more rigorous test of liquidity than the current ratio and when used in conjunction with it, it gives a better picture of the firm's ability to meet its short-term debts out of short-term assets. There is no difference in current ratio and quick ratio ADBL because, bank do not have any stock or inventory. Quick ratio is calculated by dividing the quick assets by the current liabilities i.e.

$$\text{Quick Ratio (CR)} = \frac{\text{Quick Assets (QA)}}{\text{Current Liabilities (CL)}}$$

Table 4- 5

Quick Ratio of ADBL (Rs. In Millions)

F/Y	QA	CL	Ratio
2064/65	905.24	32,553.83	0.03
2065/66	1,413.97	34,707.28	0.04
2066/67	3,666.73	36,202.57	0.10
2067/68	3,881.09	36,694.63	0.11
2068/69	4,357.01	48,478.81	0.09

Sources: Appendix 1 - Financial Summary of ADBL

The above table 4-5 depicts that the quick assets, which is same as current assets of ADBL were constant for every years of study period. Similarly, current liabilities of the bank were increased over the study period which was highest in final F/Y. Quick ratio of ADBL is increasing up to F/Y 2067/68 and decreasing in F/Y 2068/69.

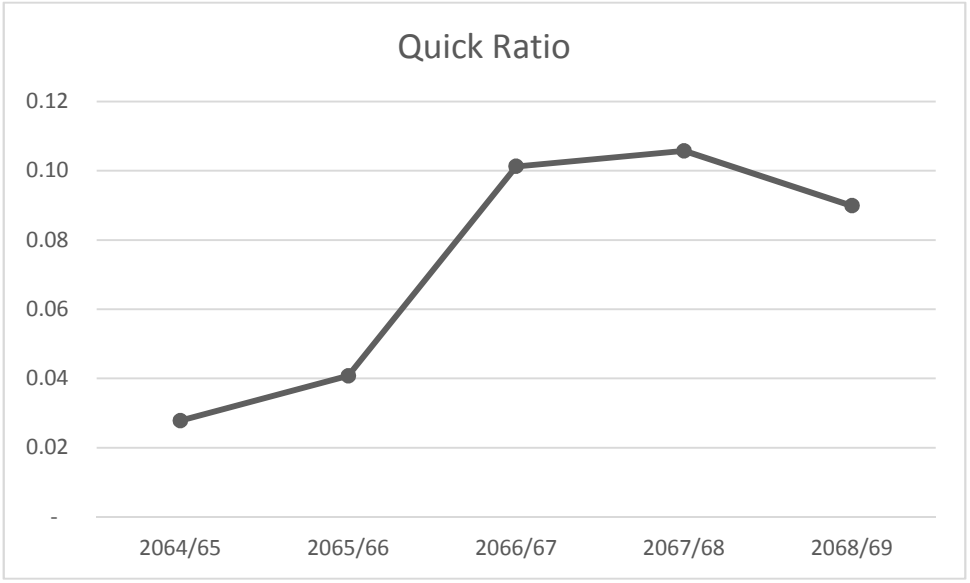

Figure 4. 5 Quick Ratio of ADBL

The above figure 4.5 displays the trend line of quick assets of ADBL which was increasing in the first three study periods and was started to decrease in 2068/69.

4.2.1.3 Cash and Bank Balance to Total Deposit Ratio

The ratio shows the ability of banks immediate funds to cover their (current, margin, call and saving) deposits. It can be calculated by dividing cash and bank balance by deposit, excluding fixed deposits. The ratio can be expressed as:

$$\text{Cash and Bank Balance to Deposit Ratio} = \frac{\text{Cash and Bank Balance}}{\text{Total Deposit}}$$

The following table and figure shows the cash and bank balance to total deposit ratio of the ADBL over the study period.

Table 4- 6
Cash & Bank Balance to Total Deposit Ratio of ADBL(Rs. In Millions)

F/Y	Cash & Bank Balance	Total Deposit	Ratio
2064/65	905.24	32,553.83	0.03
2065/66	1,413.97	35,159.61	0.04
2066/67	1,366.73	32,472.57	0.04
2067/68	1,581.09	34,394.63	0.05
2068/69	2,057.01	46,178.81	0.04
Average			0.04

Sources: Appendix 1 - Financial Summary of ADBL

The above table shows that the cash and bank balance to deposit (except fixed deposit) of ADBL have been slightly increasing in F/Y 2065/66 and decreasing in F/Y 2066/67 after this F/Y it gradually increasing trend for the final study periods. Cash and bank balance of the bank is gradually increasing trend over the study period. Similarly, the bank has average ratio of 0.04.

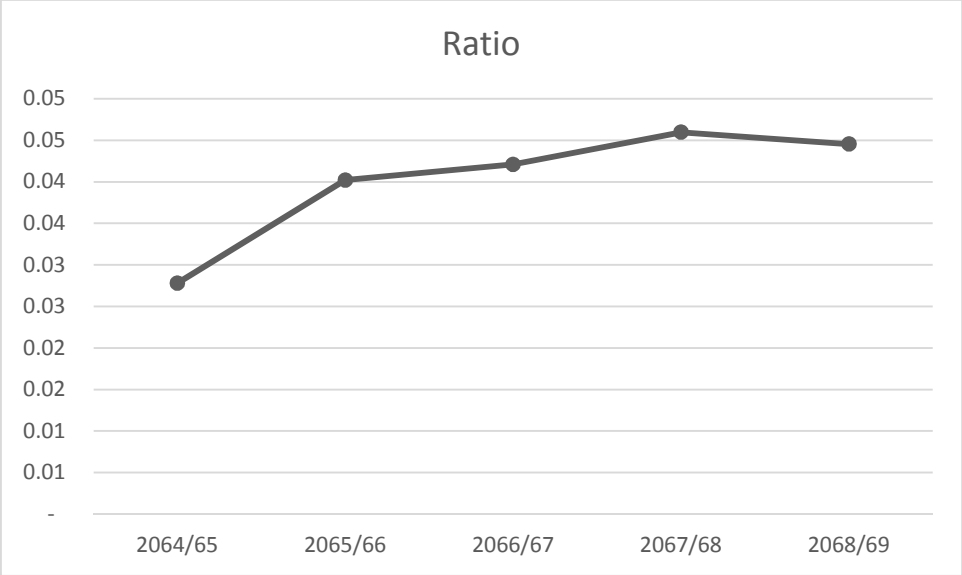

Figure 4. 6 Cash and Bank Balance to Total Deposit Ratio of ADBL

The above figure also depicts that the cash and bank balance to deposit ratio excluding fixed deposit ratio has been-slightly increasing up to F/Y 2067/68 and slightly declined in F/Y 2068/69. The above analysis helps to find out the ability of banks immediate funds to cover its current margin, call and saving deposit of the bank, in other words the liquidity position of the bank.

4.2.1.4 Saving Deposit to Total Deposit Ratio

Saving deposit is interest bearing short-term deposit. The ratio is developed in order to find out the proportion of saving deposit, which is interest bearing and short-term in

nature. It is find out by dividing the total amount of saving deposits by the amount of total deposit, which is given as follows.

$$\text{Saving Deposit to Total Deposit Ratio} = \frac{\text{Saving Deposit}}{\text{Total Deposit}}$$

The following table and figure shows the ADBL's saving to total deposit ratio.

Table 4- 7
Saving Deposit to Total Deposit Ratio of ADBL (Rs. In Millions)

F/Y	Saving Deposit	Total Deposit	Ratio
2064/65	18,382.47	32,553.83	0.56
2065/66	21,156.51	35,159.61	0.60
2066/67	18,336.28	32,472.57	0.56
2067/68	17,269.47	34,394.63	0.50
2068/69	19,964.38	46,178.81	0.43
Average			0.53

Sources: Appendix 1- Financial Summary of ADBL

The above table 4-7 depicts that the amount of saving deposit and total deposit has been fluctuating. Likewise, the saving deposit to total deposit ratio of ADBL was 0.43 in F/Y 2068/69 and the average ratio was 0.53.

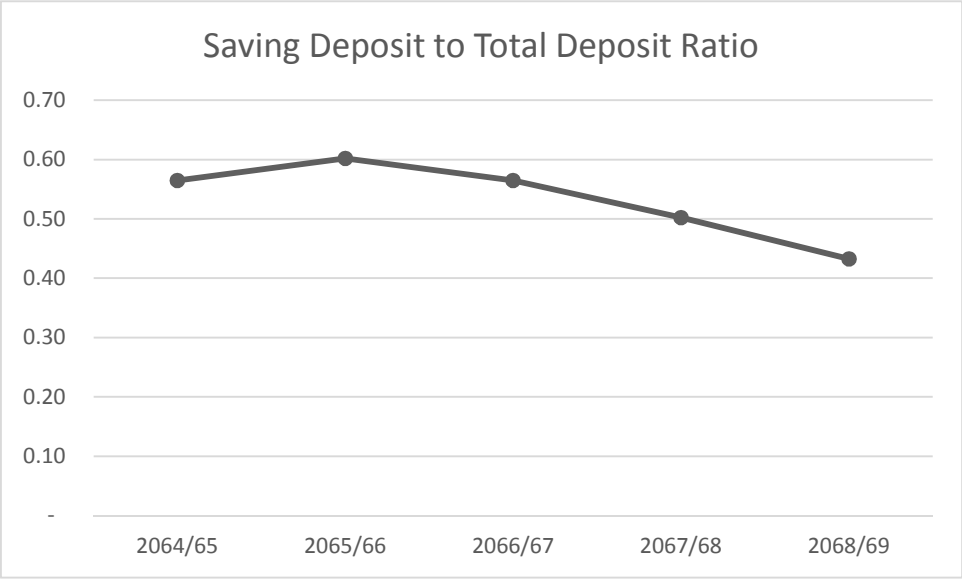

Figure 4. 7 Saving Deposit to Total Deposit Ratio of ADBL

As stated in above figure, the saving deposit to total deposit ratio of ADBL was increased in F/Y 2065/66 and gradually decreased till end of F/Y 2068/69.

Although, saving deposit is short-term liability but its nature is long-term than current, margin and other deposits. So, the large portion of saving deposit in total deposit shows the liquidity of the bank. Bank also pays interest on saving deposit but current, margin and other deposits are nominal cash fund. It means higher the ratio higher the liquidity position of the bank and vice versa. The ratio of ADBL seems not satisfactory level over the study period.

4.2.2 Activity or Turnover Ratio

Activity ratios are used to evaluate the efficiency with which the firm manages and utilizes its, assets. These ratios are also employed to evaluate the speed with which assets are being converted and turnover. These ratios moreover, help in measuring the banks ability to utilize their available resources.

4.2.2.1 Loan and Advances to Total Deposit Ratio:

This ratio assesses to what extent, the banks are able to utilize the depositor's funds to earn profit by providing loans and advances. It is computed dividing the total amounts of loans and advances by total deposited funds. The formula used to compute this ratio is as:

$$\text{Loan and Advance to Total Deposit Ratio} = \frac{\text{Loan and Advances}}{\text{Total Deposit}}$$

The following table and figure shows the effectiveness in utilization of total deposits of ADBL.

Table 4- 8
Loan and Advances to Total Deposit Ratio of ADBL (In Millions)

F/Y	Loan and Advances	Total Deposit	Ratio
2064/65	30,589.43	32,553.83	0.94
2065/66	32,603.10	35,159.61	0.93
2066/67	33,876.96	32,472.57	1.04
2067/68	34,459.92	34,394.63	1.00
2068/69	39,427.04	46,178.81	0.85

Sources: Appendix 1 - Financial Summary of ADBL

The above table shows the position and ratio of loan and advances to total deposit of ADBL from F/Y 2064/65 to F/Y 2068/69. The loan and advances of the bank was increasing from F/Y 2064/65 up to final year. But, total deposit of the bank has declined in F/Y 2066/67 and increased over the study period. Likewise, the loan advances to total deposit ratio was 0.94 in F/Y 2064/65 and stated to decrease for first then increase in F/Y 2067/68 and again it decreased in subsequent F/Ys. This means the ratio is fluctuating.

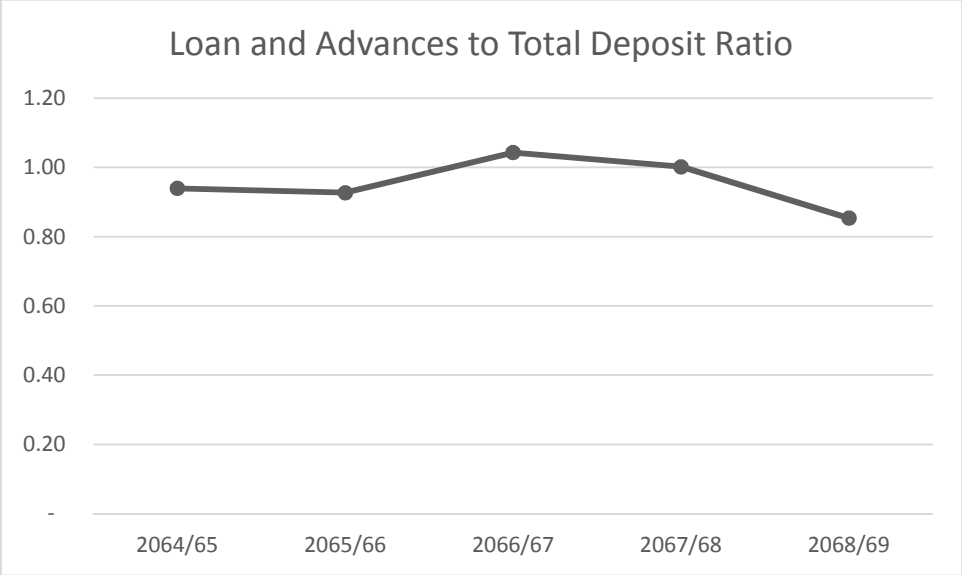

Figure 4. 8 Loan and Advances to Total Deposit Ratio of ADBL

From the above analysis, loan and advances to total deposit ratio clearly shows the low capacity of the bank to mobilize its deposit. The bank has the responsibility of collecting a huge amount of deposit for the purpose of lending a great amount of it to needy people. However, the rate of interest as well as the volume of deposits highly affects the volume of loans.

4.2.2.2 Loan and Advances to Fixed Deposit Ratio:

This ratio examines that how many times the funds is used in loans and advances against fixed deposits. For commercial banks, fixed deposits are long-term interest bearing obligations, whereas investment in loans and advances are the main sources of earning. This ratio is computed dividing loans and advances by fixed deposit as under. A low ratio indicates idle cash balance. It means total funds not properly utilized. This ratio is computed as follows:

$$\text{Loan and Advance to Fixed Deposit Ratio} = \frac{\text{Loan and Advances}}{\text{Fixed Deposit}}$$

The following table and figures shows the effective loan and advances to fixed deposit ratio of ADBL.

Table 4- 9
Loan and Advances to Fixed Deposit Ratio of ADBL (Rs. In Millions)

F/Y	Loan and Advance	Fixed Deposit	Ratio
2064/65	30,589.43	10,981.04	2.79
2065/66	32,603.10	10,672.59	3.05
2066/67	33,876.96	10,664.77	3.18
2067/68	34,459.92	13,376.92	2.58
2068/69	39,427.04	18,111.43	2.18

Sources: Appendix 1 - Financial Summary of ADBL.

The above table depicts that the loan and advances to total fixed deposit ratio of ADBL was increased up to F/Y 2066/67 in comparison to previous year. In F/Y 2066/67 it increased and reached to 3.18. It was slightly decreased in F/Y 2068/69 and reached up to 2.18. It indicates that the loan and advances to fixed deposit ratio of ADBL is fluctuating.

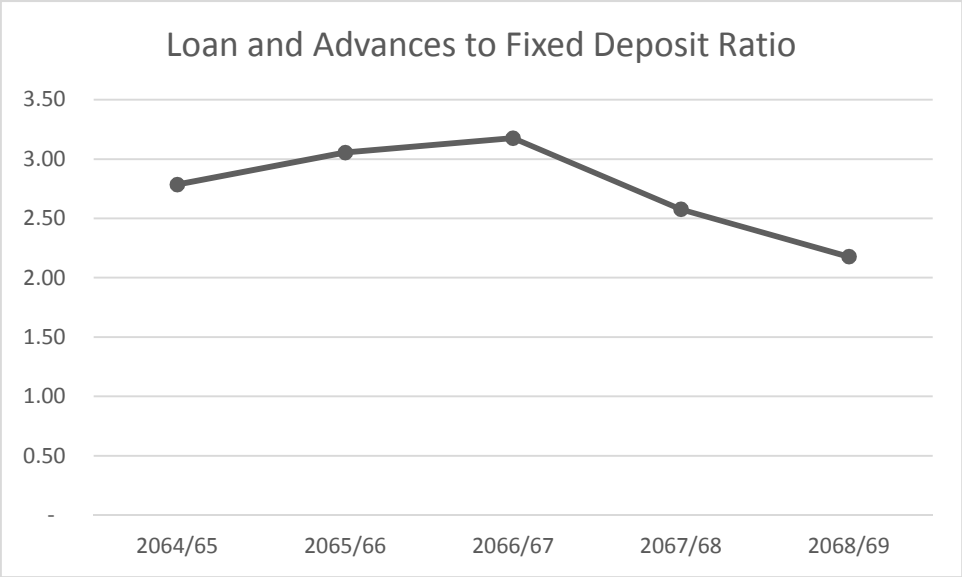

Figure 4. 9 Loan and Advances to Fixed Deposit Ratio of ADBL

The above figure 4.9 clearly shows that the loan and advance to fixed deposit of ADBL was slightly increasing first then gradually decreasing in nature. In F/Y 2066/67 it was increased but in F/Y 2067/68 it was slightly decreased and again decreased in final year. The above analysis implies that the utilization of fixed deposit in loan and advances efficient. The higher ratio implies the efficient mobilization of fixed deposit and vice versa. From the above trend analysis we can conclude that the ADBL has been mobilizing its fixed deposit quite satisfactory.

4.2.2.3 Loan and Advance to Saving Deposit Ratio:

This ratio assesses how many times the fund is used to loans and advances against saving deposits. Saving deposits are interests bearing short-term obligation and the major sources of investment in loan and advances for income generation and the major sources of investment in loan and advances for income generating purpose by CBs. This ratio indicates how many times the short-term interest bearing deposits are utilized for generating the income, is calculated, divining the amount of loan and advances by total deposit in saving account. The following formula is used to determine this ratio as:

$$\text{Loan and Advance to Saving Deposit Ratio} = \frac{\text{Loan and Advances}}{\text{Total Saving Deposit}}$$

The following table and figure shows the loan and advance to saving deposit ratio of ADBL.

Table 4- 10
Loan and Advance to Saving Deposit Ratio of ADBL (Rs. In Millions)

F/Y	Loan and Advance	Saving Deposit	Ratio
2064/65	30,589.43	18,382.47	1.66
2065/66	32,603.10	21,156.51	1.54
2066/67	33,876.96	18,336.28	1.85
2067/68	34,459.92	17,269.47	2.00
2068/69	39,427.04	19,964.38	1.97
Average			1.80

Sources: Appendix 1 - Financial Summary of ADBL.

As depicted by above table, the saving deposit of ADBL has been gradually increasing from Rs. 18,382.47 million in F/Y 2064/65 and reached to Rs. 21,156.51 million in F/Y 2065/66 then it tends to decrease and reached Rs. 19,964.38 million in F/Y 2068/69. In other hand the loan and advances was increasing up to F/Y 2068/69. Likewise, the ratio of loan and advance to saving deposit is seems quite fluctuating. It was 1.66 in the first F/Y 2064/65 and reached 1.97 in final year 2068/69. The average ratio stands at 1.80.

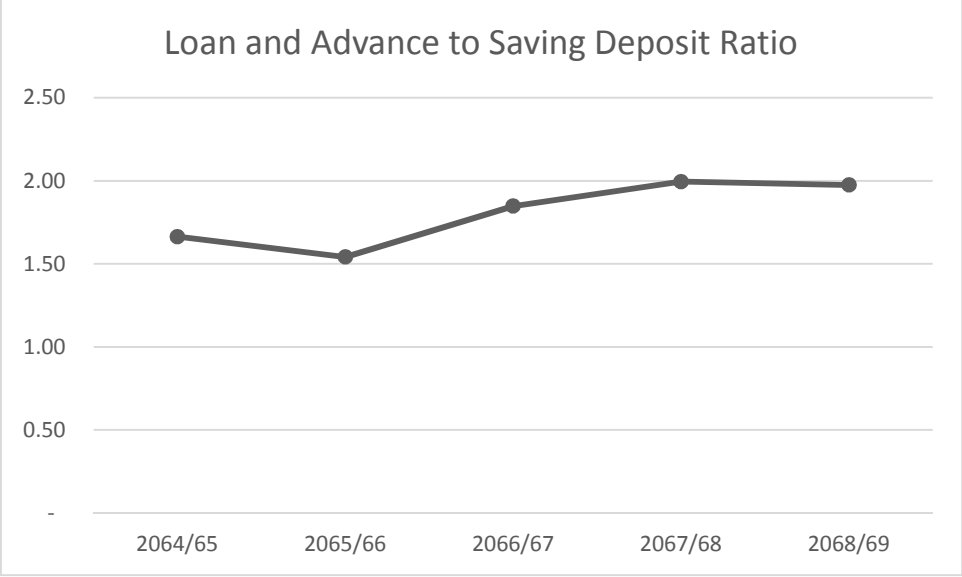

Figure 4. 10 Loan and Advances to Saving Deposit Ratio of ADBL

The above figure clearly shows that the loan and advance to saving deposit ratio of ADBL is very fluctuating. From the above analysis it can be concluded that the saving deposit of the bank has been effectively utilized in loan and advances.

4.2.3 Capital Structure or Leverage Ratio

Leverage refers to the ratio of debt to equity in the capital structure of the firm. Debt and equity are long-term obligations and remaining parts in the liability side of the balance sheet are termed as short-term obligations. Both types of obligations are required in forming the capital structure of the firm, the long-term financial position of the firm is determined by the leverage or capital structure. The different leverage ratios are maintained to measure the financial risk or proportion of outsiders fund and owner's capital used the firm. The bank often uses these ratios to see how the assets are financed i.e. by creditors or through their own investments. In general, a bank will consider a lower ratio to be an indicator of the ability to repay the creditors. The ratios will vary from industry to industry, and over time, interpreting ratios requires knowledge of the business, industry, and the reasons for fluctuations.

4.2.4 Profitability Ratio

Profitability ratios indicate the degree of success in achieving desired profit. Various profitability ratios are calculated to measure the operating efficiency of business enterprises. These ratios are mostly used to compare the performance of the bank in different years. Through profitably ratios the lender and investors want to decide whether to invest in a particular business or not.

4.2.4.1 Interest Earned to Total Assets Ratio:

It is the ratio, which formed to find out the percentage of the interest earned -to total assets. This is derived by dividing the amount of interest earned by the total assets of the firm

$$\text{Interest Earned To Total Assets Ratio} = \frac{\text{Interest Earned}}{\text{Total Assets}}$$

The following table and figure shows the interest earned to total assets ratio of the ADBL

Table 4- 11
Interest Earned to Total Assets Ratio of ADBL (Rs. In Millions)

F/Y	Interest Earned	Total Assets	Ratio
2064/65	3,363.73	44,085.96	0.08
2065/66	4,231.14	51,818.74	0.08
2066/67	5,297.03	53,938.64	0.10
2067/68	6,101.19	59,241.36	0.10
2068/69	6,961.02	68,646.34	0.10
Average			0.09

Sources: Appendix 1 - Financial Summary of. ADBL

The interest earned has been following increasing trend, i.e. the interest earned of ADBL has been gradually increasing every year. The total asset of the ADBL has been also increasing gradually over the study period. Interest earned to total assets ratio of the bank was constant in first two F/Y and increased from 0.08 to 0.10 then remain constant for the subsequent three F/Y. The average ratio of the ADBL was 0.09 % over the study period. The following figure shows the ratio of interest earned to total assets of the bank.

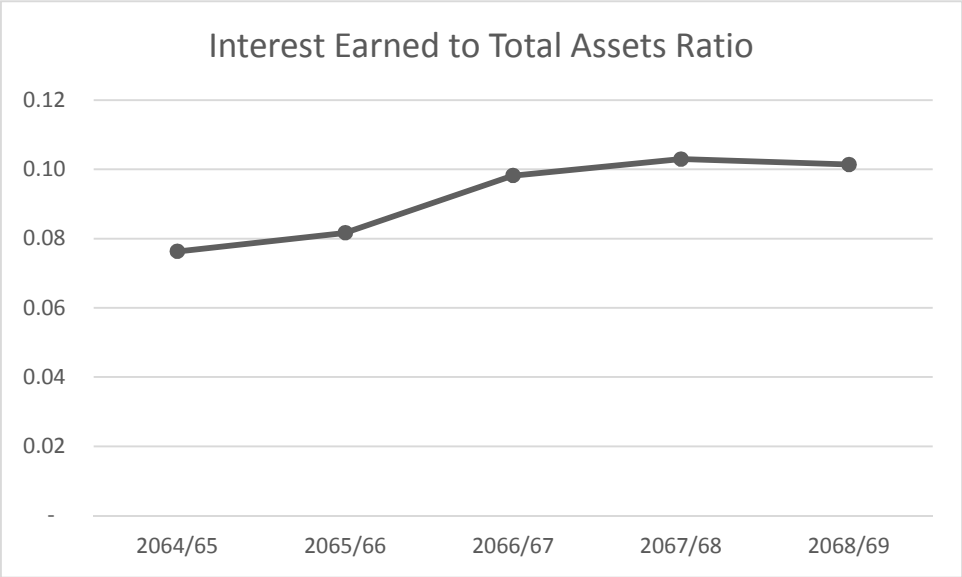

Figure 4. 11 Interest Earned to Total Assets Ratio of ADBL

The interest earned has been following increasing trend, i.e. the interest earned of ADBL has been gradually increasing every year. The total asset of the ADBL has been also increasing gradually over the study period. Interest earned to total assets ratio of the bank was constant in first two F/Y and increased from 0.08 to 0.10 then remain constant for the subsequent three F/Y.

From the above analysis we can conclude that the interest earned to total assets of the ADBL is quite ok. It implies that the bank might not be able to use its total assets of funds to earned interest.

4.2.4.2 Net Profit to Total Assets Ratio:

This ratio is very much crucial for measuring the profitability of funds invested in the bank's assets. It measures the return on assets is computed by using following formula:

$$\text{Net Profit to Total Assets Ratio} = \frac{\text{Net Profit}}{\text{Total Assets}}$$

The following table and figure shows the net profit to total assets ratio of ADBL.

Table 4- 12
Net Profit to Total Assets Ratio of ADBL (Rs. In Millions)

F/Y	Net Profit	Total Assets	Ratio
2064/65	669.24	44,085.96	0.02
2065/66	1,057.60	51,818.74	0.02
2066/67	1,892.39	53,938.64	0.04
2067/68	2,365.48	59,241.36	0.04
2068/69	47.94	68,646.34	0.00
Average			0.02

Sources: Appendix 1 - Financial Summary of ADBL.

As shown in the above table 4-12 the net profit of the bank was Rs. 669.24 million in F/Y 2064/65, Rs. 1,057.60 million in F/Y 2065/66, Rs. 1,892.39 million in FY 2066/67, Rs. 2,365.48 million in FY 2067/68 and Rs. 47.94 million in F/Y 2068/69. Likewise the ratio of net profit to total assets is increasing up to Final Year, the trend of net profit is also fluctuating .The lowest net profit to total assets is 0.02 % in F/Y 2064/65 and the highest is 0.04 % in F/Y 2066/67 and 2067/68. The average of net profit to total assets ratio is 0.02 % over the study period.

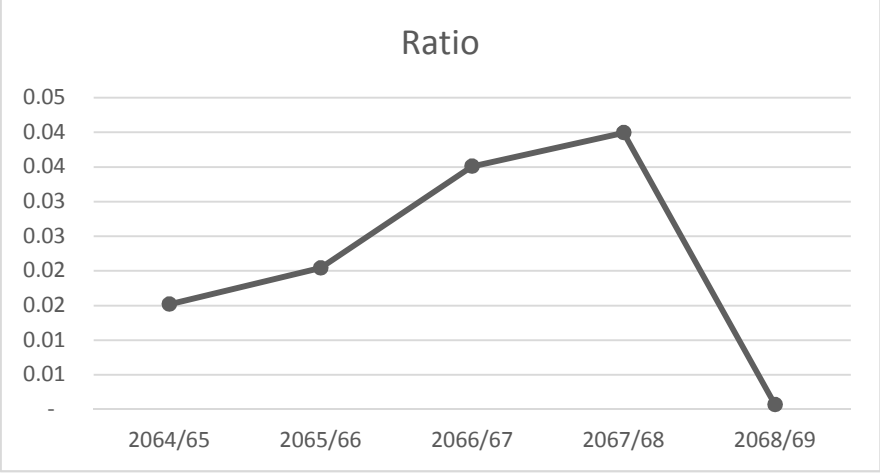

Figure 4. 12 Net Profit to Total Assets Ratio of ADBL

The above figure implies that the fluctuating net profit to total assets ratio in percentage of ADBL. Above analysis helps to find out whether the bank efficiently used its working funds or total assets to earned higher rate of profit or not.

4.2.4.3 Net Profit to Total Deposit Ratio:

This ratio is used to measuring the internal rate of return from deposit. It is computed dividing the net profit by total deposits. Higher ratio indicates the return from investment on loans and advances are desirable and lower ratio indicates the funds are not properly mobilizing the following formula is used as:

$$\text{Net Profit to Total Deposit Ratio} = \frac{\text{Net Profit}}{\text{Total Deposit}}$$

Table 4- 13
Net Profit to Total Deposit Ratio (In Millions)

F/Y	Net Profit	Total Deposit	Ratio
2064/65	669.24	32,553.83	0.02
2065/66	1,057.60	35,159.61	0.03
2066/67	1,892.39	32,472.57	0.06
2067/68	2,365.48	34,394.63	0.07
2068/69	47.94	46,178.81	0.00
Average			0.04

Sources: Appendix 1 - Financial Summary of ADBL

The above table shows that the total deposit of ADBL has been gradually increasing over the period of study period. In other hands, the net profit is also in increasing up to F/Y 2067/68 and decreased in F/Y 2068/69. The ratio stands at 0.02 % at the end of F/Y 2068/69 and stands at 0.00 % in F/Y 2068/69. The average of net profit to total deposit ratio is 0.04 % over the study period.

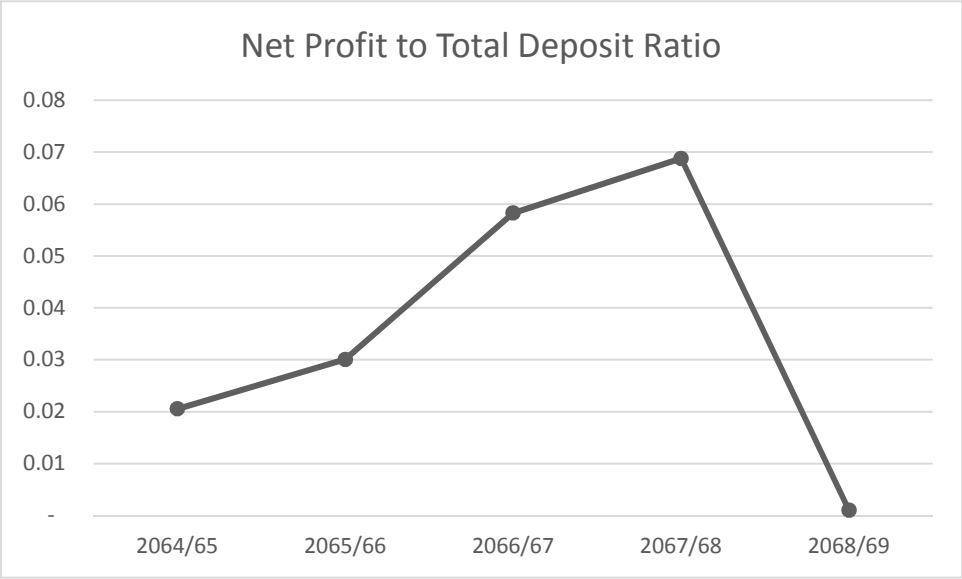

Figure 4. 13 Net Profit to Total Deposit Ratio of ADBL

The above analysis helps to find out whether the bank could able to mobilize of outsiders funds properly or not. The mobilization of outsiders fund is very important to earn profit for a commercial bank. The efficient mobilization of deposit indicates the better performance of the bank. Therefore, the bank mobilized its deposit as efficiently as possible. As shown in above table we can easily conclude that the bank could not be able to mobilize its deposit or outsiders funds efficiently. The bank should mobilize its deposit properly to increase profit.

4.3 Correlation Analysis:

Correlation analysis is a statistical relation between two or more variables such that systematic changes in the value of one variable are accompanied by systematic changes in the other. In other words, correlation is the statistical tool that we can use to describe the degree to which on variable is linearly related to another. The coefficient of correlation measures the degree of relationship between two sets of figures. It is denoted by small letter 'r'. The result of coefficient of correlation is always between +l and -1 when 'r' is equal to +1, it means there is prefect relationship between two variables and

vice versa. When is zero, its means there is no relationship between two variables. Therefore, correlation is a reciprocal relation between two or more things.

4.3.1 Coefficient of Correlation between Investment on Government Securities and Total Deposit:

The coefficient of correlation between investment on government securities and total deposit is to measure the degree of relationship between two variables. Although bank utilizes its deposits on loan and advances but some part of idle deposit are invested on government securities. The purpose of computing correlation coefficient is to justify whether the excess deposits are significantly used in government securities or not or whether there is any relationship between these two variables. In this analysis; government security is dependent variable (X) and total deposit is independent variable (Y). The following table shows the coefficient of correlation between deposits and government securities i.e. 'r', PE & 6PE of ADBL over the study period.

Table 4- 14
Coefficient of Correlation between Investment on Government Securities and Total Deposit

Name of Bank	Correlation (r)	PE	6PE
ADBL	0.86	0.079	0.47

Source: Appendix-2

From the above table 4-14, we can find that the coefficient of correlation between government security and total deposit of ADBL value ‘r’ is + 0.86. It shows that the positive relationship between these two variables government security and total deposit of the bank. By considering the probable error, since the value of ‘r’ is greater than six times of PE then we can say that the value of `r' is significant i.e. relationship between government security and total deposit of the bank is significant.

Hence, from the above analysis, it can be concluded that there is significant relationship between government security and total deposit of the bank over the study period.

4.3.2 Coefficient of Correlation between Loan and Advance and Total Deposit:

The coefficient of correlation between loan and advances and total deposits is to measure the degree of relationship between major components of current assets i.e. loan and advances and major sources of fund on bank i.e. total deposits. In correlation analysis, deposit is independent variable (Y) and loan and advances is dependent variable (X). The purpose of computing coefficient of correlation is to justify whether the deposits are significant used in loan and advances or not and whether there is any relationship between these two variables. To find out the correlation, various calculations are done.

The following table shows the coefficient of correlation (r) between loan and advances and total deposits i.e. r, PE & 6PE of ADBL.

Table 4- 15
Coefficient of Correlation between Loan and Advance and Total Deposit

Name of Bank	Correlation (r)	PE	6PE
ADBL	0.9011	0.0567	0.3403

Source: Appendix-3

From the above table 4-15 depicts that the coefficient of correlation between loan and advances and total deposit value Y of ADBL is + 0.9011. It shows highly positive relationship between two variables loan and advances and total deposit of ADBL. By considering the probable error, since the value of 'r' i.e. + 0.9011 is more than six times of probable error i.e. 0.3403, we can say that the value of 'r' is highly significant i.e. there is significant relationship between total deposit and loan and advances. Thus from analysis, we can conclude that the bank have utilized its total deposits on loan and advances effectively.

4.3.3 Coefficient of Correlation between Cash and Bank Balance and Current Liabilities:

Cash and bank balance is most liquid component of current assets. This is required to meet the unexpected short-term obligation i.e. current liabilities. The coefficient of correlation between cash and bank balance and current liabilities is to measure the degree of relationship between cash and bank balance and current liabilities. To find out the correlation, various calculations are done. In correlation analysis, cash and bank balance is dependent variable (X) and current liabilities are independent variable (Y). The following table shows the coefficient of correlation between cash and bank balance and current liabilities i.e. 'r', 'PE', '6PE' of ADBL.

Table 4- 16
Coefficient of Correlation between Cash and Bank Balance and Current Liabilities

Name of Bank	Correlation (r)	PE	6PE
ADBL	0.3963	0.2543	1.5256

Source: Appendix – 4

As stated in above table 4-16, we can find that coefficient of correlation between cash and bank balance and current liabilities of ADBL is +0.3963 which shows the positive relationship between two variables cash and bank balance and current liabilities. By considering the probable error, since the value of `r' i.e. +0.86 is not greater than six times of PE i.e. 1.5256, we can say that value of `r' is significant. From the above analysis, it can be concluded that there is significant relationship between cash and bank balance and current liabilities.

4.3.4 Coefficient of Correlation- between Loan and Advances and Net Profit:

The basic function of commercial bank is to collect deposit and invest these funds on loan and advance to generate higher profit. Large amount of loan and advances generate

higher profit. The coefficient of correlation between loan and advances and net profit is to measure the degree of relationship -between loan and advances and net profit. In correlation analysis, loan and advances- is independent variable (Y) and net profit is dependent variable (X). The purpose of computing .the correlation of the coefficient is to justify whether the loan and advances are significantly generate profit of not and whether there is any relationship between these two variables. The following table shows the calculated amount of `r', `PE' and '6PE' the ADBL over the study period.

Table 4- 17

Coefficient of Correlation between Loan and Advance and Net Profit

Name of Bank	Correlation (r)	PE	6PE
ADBL	-0.3108	0.2725	1.6350

Source: Appendix - 5

As stated in above table 4-17, the coefficient of correlation between loan and advances and net profit of ADBL over the study period is - 0.3108. It shows negative relationship between two variables loan and advances and net profit. By considering the probable error, since the value of ‘r’ is not greater than six times of PE then we can say that the value of `r' is not significant i.e. relationship between loan and advances and net profit of the bank is not significant.

Hence, from the above analysis, it can be concluded that there is not significant relationship between loan and advances and net profit of the bank over the study period.

4.4 Major Findings of the Study

The following are the major findings of the study:

i. The working capital of ADBL has been following increasing trend in over all study period. The working capital portrays the liquidity position of the organization. It means higher the working capital higher the liquidity of the firm and vice versa. Total working capital of the bank was limited to Rs. 747.57 million, Rs. 2,027.60 million, Rs 800.59 million, Rs. 1,899.66 millions and Rs (3,714.74) million at the end of F/Y 2064/65, 2065/66, 2066/67, 2067/68 and 2068/69 respectively.

ii. The current ratio of the bank was quite fluctuating, which stands 1.02 at F/Y 2064/65, 1.06 at F/Y 2065/66, 1.02 at F/Y 2066/67, 1.05 at F/Y 2067/68 and 0.92 at F/Y 2068/69 respectively. The average CR of the bank stands at 1.01 over the study period. As stated by the result, the bank has enough liquidity to remain solvent at the ratio of 0.92:1, which is minimum in F/Y 2068/69. In this case, the bank has enough idle money which cannot generate inflow to the bank. Lower current ratio shows the no idle fund of the bank.

iii. The quick ratio of the bank is also represented by the current ratio. The Q.R. of the bank is same as C.R. It means, quick ratio is also fluctuating and the bank has enough idle funds which is unproductive to the bank. So, bank has to reset ratio to meet its current liabilities.

iv. The cash and bank balance slightly increasing up to fiscal year 2065/66 and was decreased in F/Y 2066/67. It indicates that how much funds available with the bank to cover its current margin, call and saving deposit of the bank immediately. But the large amount of idle cash and bank balance affects profitability of the bank. This ratio stands average 0.04 % over the study period which means bank is in satisfactory level.

v. The saving deposit to total deposit ratio of the bank has been gradually increasing and slightly decreasing and again increasing over the study period. It stands at average 0.53 % over the study period. Thus, the ratio indicates the bank's liquidation position. Higher level of this ratio of the bank indicates to the idle fund. From profitability point of view, the bank should minimize the ratio. As depicted by the study ADBL's position seems satisfactory over the study period.

vi. The loan and advances to total deposit ratio of ADBL was increasing in fiscal year during the study period. The ratio indicates the capacity of the bank to mobilize its deposits. As stated by the study, the mobilization of deposits of the bank is not satisfactory level over the study period.

vii. The loan and advances to fixed deposits ratio of the ADBL was increasing in trend. The ratio indicates the capacity of mobilizing its fixed deposit to loan and advances. It means, these ratios implies to the utilization of fixed deposits in loan advances efficiently or not. From the study, it is found that the bank has been mobilizing its fixed deposits quite satisfactory.

viii. The loan and advances to saving deposits of the bank has been in increasing and decreasing and again increasing trend. There was not consistency in the ratio. It stands at average ratio 1.80 over the study period. These ratios imply that the bank either able to mobilize its saving deposits or not. As per the study, the bank is in satisfactory position over the study period.

ix. The long term debt to net worth ratio of the bank did not exist because the bank did not use any outsider funds. It means the debt to net worth ratio is zero over the study period. It indicates that the bank is not risky from the view point of investor.

x. The net fixed asset to long term debt ratio of the bank was also same as long term debt to net worth ratio.

xi. Interest earned to total assets ratio of any organization indicates the profitability ratios. The ratio of bank is increasing during the study period. It stands at average 0.09% over the study period. From the study, it is concluded that the interest earn to total assets ratio of ADBL is not so much satisfactory. It means the bank could not able to use its total assets properly to earn interest.

xii. Net profit to total assets ratio of the bank was also in decreasing. It standsat average 0.02 % over the period of study. The study shows that the bank could not able to utilized its total assets to generate profit.

xiii. Net profit to total deposit ratio of the bank was also fluctuating. It stands at average 0.04 % over the study period. This ratio is used to find out whether the bank could able to mobilize outsider's funds properly or not. The mobilization of outsider's funds is very important for a commercial bank. The efficient mobilization of deposit indicates the better performance of the bank. Therefore, the bank should mobilize its deposit as efficiently as possible. But from the above study, we can easily found that the bank could not able to mobilize its total deposit efficiently.

xiv. The coefficient of correlation between investment and government securities and total deposit was +0.86, which is significant. It means there is relationship between government securities and total deposit over the study period

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xv. The coefficient of correlation between loan and advances and total deposit stands at +0.9011, which is significant. It means there is positive relationship between loan and advances and total deposit of the bank i.e. perfectively correlated. The bank should increased total deposit to increase loan and advances and vice versa.

xvi. The coefficient of correlation between cash and bank balance and current liabilities was +0.3963 which is significant.

xvii. The coefficient of correlation between loan and advances and net profit was -0.3108. It means not significant and there is negative relationship between loan and advances and net profit, which is not significant.

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

Finance is a business term which deals with the study of fund management. If finance is to be accepted as weapon which enables an organization to pay its bills promptly, it is necessarily linked with the flow of fund. The management may accept or reject a business provision on the basis of financial viabilities. It guides investment where opportunity is the greatest, producing relatively uniform yardstick for judging most of a firm's operations and projects and is continually concerned with achieving an adequate rate of return on investment as this is necessary for survival and the attracting of new capital.

The function of finance involves three major decisions which, the firm must make the investment decision, financing decision and the dividend decision. An optimum combination of the three will maximize the value of the firm. In other words entire activities relating the finance are done with the help of financial management. So in this area of management there are two main functions, firstly to assemble the funds necessary to initiate a new business economically and secondly to provide the basis of continue new operation.

It will not be are exaggeration to say that the success of any business organization depends upon its entire environment. Financial management is one of them which the organization can control to some extent. It is concerned with the decision making regarding the size and composition of assets, and the level and structure. The cheaper source of fund and to invest it at the best opportunities etc. comes under the heading of financial decision making. The management of short-term assets and source of finance which entails an analysis of the effect of risk and profitability cannot be overlooked.

The working capital has to be regarded as one of the conditioning factors in the long range analysis and decision making. To achieve the goal of overall business, the determinants of

working capital management should be as accurate as possible. It means money invested on working capital should be neither more nor less because both the position of working capital affects not only liquidity but also profitability of the organization. The investment decision should be made on any type of current assets by considering their role in corporation, and determine which one is more beneficial to the corporation and which is not.

Firms need cash to pay for all their day-to-day activities. They have to pay wages, pay for raw materials, pay bills and so on. The money available to them to do this is known as the firm's working capital. The main sources of working capital are the current assets as these and the short-term assets that the firm can use to generate cash. However, the firm also has current liabilities and so these have to be taken on account of when working out, how much working capital a firm has at its disposal.

According to gross concept, WC refers to the capital invested in current assets of a firm. It focuses only the optimum investment on current assets and financing of current assets. It includes cash, short-term securities, and inventory and account receivables. Similarly, according to net concept, working capital refers to the difference between current assets and current- liabilities. In other words, it is that part of current assets financed with long term funds. It focuses on the liquidity position of the firm and suggests extending which working capital need-to be financed by permanent sources of funds.

5.2 Conclusion

The working capital of ADBL has been following increasing trend over the study period. The working capital depicts the liquidity position of the organization. It means higher the working capital higher the liquidity of the firm and vice versa. Total working capital of the bank was limited to Rs. 747.57 million, Rs. 2,027.60 million, Rs 800.59 million, Rs. 1,899.66 millions and Rs (3,714.74) million at the end of F/Y 2064/65, 2065/66, 2066/67, 2067/68 and 2068/69 respectively.

The current ratio of the bank was quite fluctuating, which stands 1.02 at F/Y 2064/65, 1.06 at F/Y 2065/66, 1.02 at F/Y 2066/67, 1.05 at F/Y 2067/68 and 0.92 at F/Y 2068/69 respectively. The average CR of the bank stands at 1.01 over the study period. As stated by the result, the bank has enough liquidity to remain solvent at the ratio of 0.92:1, which is minimum in F/Y 2068/69. In this case, the bank has enough idle money which cannot generate inflow to the bank. Lower current ratio shows the no idle fund of the bank.

The quick ratio of the bank is also represented by the current ratio. The Q.R. of the bank is same as C.R. It means, quick ratio is also fluctuating and the bank has enough idle funds which is unproductive to the bank. So, bank has to reset ratio to meet its current liabilities.

The cash and bank balance slightly increasing up to fiscal year 2065/66 and was decreased in F/Y 2066/67. It indicates that how much funds available with the bank to cover its current margin, call and saving deposit of the bank immediately. But the large amount of idle cash and bank balance affects profitability of the bank. This ratio stands average 0.04 % over the study period which means bank is in satisfactory level.

The saving deposit to total deposit ratio of the bank has been gradually increasing and slightly decreasing and again increasing over the study period. It stands at average 0.53 % over the study period. Thus, the ratio indicates the bank's liquidation position. Higher level of this ratio of the bank indicates to the idle fund. From profitability point of

view, the bank should minimize the ratio. As depicted by the study ADBL's position seems satisfactory over the study period.

The loan and advances to total deposit ratio of ADBL was increasing in fiscal year during the study period. The ratio indicates the capacity of the bank to mobilize its deposits. As stated by the study, the mobilization of deposits of the bank is not satisfactory level over the study period.

The loan and advances to fixed deposits ratio of the ADBL was increasing in trend. The ratio indicates the capacity of mobilizing its fixed deposit to loan and advances. It means, these ratios implies to the utilization of fixed deposits in loan advances efficiently or not. From the study, it is found that the bank has been mobilizing its fixed deposits quite satisfactory.

. The loan and advances to saving deposits of the bank has been in increasing and decreasing and again increasing trend. There was not consistency in the ratio. It stands at average ratio 1.80 over the study period. These ratios imply that the bank either able to mobilize its saving deposits or not. As per the study, the bank is in satisfactory position over the study period.

The long term debt to net worth ratio of the bank did not exist because the bank did not use any outsider funds. It means the debt to net worth ratio is zero over the study period. It indicates that the bank is not risky from the view point of investor.

The net fixed asset to long term debt ratio of the bank was also same as long term debt to net worth ratio.

Interest earned to total assets ratio of any organization indicates the profitability ratios. The ratio of bank is increasing during the study period. It stands at average 0.09% over the study period. From the study, it is concluded that the interest earn to total assets ratio of ADBL is not so much satisfactory. It means the bank could not able to use its total assets properly to earn interest.

Net profit to total assets ratio of the bank was also in decreasing. It standsat average 0.02 % over the period of study. The study shows that the bank could not able to utilized its total assets to generate profit.

Net profit to total deposit ratio of the bank was also fluctuating. It stands at average 0.04 % over the study period. This ratio is used to find out whether the bank could able to mobilize outsider's funds properly or not. The mobilization of outsider's funds is very important for a commercial bank. The efficient mobilization of deposit indicates the better performance of the bank. Therefore, the bank should mobilize its deposit as efficiently as possible. But from the above study, we can easily found that the bank could not able to mobilize its total deposit efficiently.

The coefficient of correlation between investment and government securities and total deposit was +0.86, which is significant. It means there is relationship between government securities and total deposit over the study period.

The coefficient of correlation between loan and advances and total deposit stands at +0.9011, which is significant. It means there is positive relationship between loan and advances and total deposit of the bank i.e. perfectively correlated. The bank should increased total deposit to increase loan and advances and vice versa.

The coefficient of correlation between cash and bank balance and current liabilities was +0.3963 which is significant.

The coefficient of correlation between loan and advances and net profit was -0.3108. It means not significant and there is negative relationship between loan and advances and net profit, which is not significant.

5.2 Recommendation

Based on the major findings of this study, some recommendations have been made so as to overcome some shortfalls regarding the issue of working capital management of the bank

- Working capital is essential to meet short-term obligations. But high level of working capital increase idle fund which affects the profitability of the bank. Therefore, the bank should maintain sound working position. It means neither more nor less. The working capital of ADBL has been following increasing trend.

- The current and quick ratio of the bank is more than one. It means, the bank has sufficient liquidity to remain solvent even at the average ratio of 1.01:1, which was maximum ratio during the study period. It is true that such higher ratio supposed by the greater ability of bank to pay its bills. But if a bank has more than sufficient current assets, it is an indication of unfavorable of distribution of current assets than current liabilities. Therefore, there is quite higher idle fund which may result unproductive for bank. Thus, the bank should try to reduce its current assets to increase its profitability.

- The loan and advances to total deposit ratio indicates the capacity of bank to mobilize its deposit into loan and advances. It also majors the efficiency of management to utilize their available resources. As found in the above study, the bank could not able to mobilize its total deposit through loan and advances. Therefore, the bank should spend its total deposit as much as possible means of loan and advances.

- CD Ratios requirement of NRB is 80%, whereas ADBL's CD Ratios is higher than recommended thus it needs to maintain it's CD ratios in the line of recommendation of regulated bodies.

- Till now the bank is utilizing only net worth but not any debt capital. The utilization of debt capital somehow helps to increase the profitability of the bank. Therefore, the bank should try to issue long-term debt or debentures or maintain leverage capital ratio.

- From the above study we can easily find that the bank's interest earned to total assets ratio is not satisfactory so far. It indicates the bank could not able to utilize its total assets to earned interest. Therefore, the bank should utilize its available assets as properly as possible to earned interest. For this the bank shyh7ould lend only in performing loan which makes sure to recovery of principle as well as interest.

- The net profit to total assets ratio of the bank is not satisfactory. From the above study, it is easily found that the bank could not able to utilize its available sources properly to earn profit. Therefore the bank should utilize its total assets as possible as much.

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Appendix 1: Financial Summary of ADBL ***(Comparative Balance Sheet for Five Years)***

Particulars/Years	*2064/65*	*2065/66*	*2066/67*	*2067/68*	*2068/69*
A. Share Capital	10777500000	10777500000	9437500000	9474300000	94743000000
B. Reserves & Surplus	(-5,042,981,209.30)	(-452,327,264.24)	1,348,412,515.53	3,715,179,065.02	३,४९८,३४५,५८४.००
C. Debentures & Bonds	0	0	2300000000	2300000000	2300000000
D. Borrowings	257,372,999.31	198,250,495.31	259,562,311.00	243,701,324.00	९२७,१७१,७५२.००
E. Deposits	32,553,827,474.54	35,159,610,215.50	32,472,568,524.-15	34,394,627,504.46	४३,२३५,०९५,९८०.००
F. Proposed & Dividend Payable	0	276,000,000.00	276,000,000.00	276,000,000.00	२७६,०००,०००.००
G. Income Tax Liabilities	365,242,261.98	597,718,631.36	941,920,428.51	1,340,904,623.07	0
H. Other Liabilities	5,174,995,862.67	5,261,986,728.71	6984262298.55	7496652210.32	८,९३५,४२३,८९६.००
TOTAL CAPITAL & LIABILITIES	**44,085,957,389.20**	**51,818,738,806.64**	**54020226077.74**	**59241364726.87**	**68,646,337,212.00**
Assets	**2064/65**	**2065/66**	**2066/67**	**2067/68**	**2068/69**
A. Cash Balance	905235145.88	1413970998.43	1366731315.12	1581094373.65	2057014070
B. Balance with Nepal Rastra Bank	1806730883.56	2717813275.37	1759468451.41	2553274772.58	3280012803
C. Balance with Banks/Financial Institutions	912,032,471.73	1,075,868,731.98	1,035,206,232.35	674,585,364,1 3	८६९,१०४,८२१.००
D. Money at Call & Short Notice	49995500	2244197897.71	1611341938.57	27289736.8	0
E. Investments	2881658756.59	4896061772.9	4540083913.39	7267285030.37	10837875607
F. Loans, Advances & Bills Payable	30589428109.35	32603095641.83	33876956796.68	34459918807.91	39427044792
G. Fixed Assets	781,149,055.31	803,332,671.49	968.744,654.70	1,022,893,900.44	१,३६३,२०८,९६३.००
H. Other Assets	6,159,727,466.78	6,064,397,816.93	8861692775.52	11655022740.99	१०,८१२,०७६,१५६.००
TOTAL ASSETS	**44,085,957,389.20**	**51,818,738,806.64**	**53938637777.75**	**59241364726426.87**	६८,६४६,३३७,२१२.००

Comparative Profit & Loss for Five Years

Particulars/Years	*2064/65*	*2065/66*	*2066/67*	*2067/68*	*2068/69*
1. Interest Income	3363730566	4231143067	5287029087	6,101 , 187,522	6961022153
2. Interest Expenses	1,043,806,969	1,157,070,577	1,507,997,110	2,116,489,367	२,८४०,११०,८७६
NET INTERST INCOME	2,319,923,596.79	3,074,072,489.91	3,779,031,976.57	3,984,698,155.42	४,१२०,९११,२७७
3. Comm.& Discounts	71,139,205.06	90,044,701.26	279,555,249.54	261,740,973.49	१९५,०६१,१५१
4. Other Operating Income	350,676,351.99	382,245,607.46	318,804,139.34	322,223,986.01	४६४,२६४,०४९
5. Exchange Fluctuation Income	11,954,962.13	22,096,306.53	0	0	0
TOTALOPERATING INCOME	2,753,694,115.97	3,568,459,105.16	4,377,391,365.45	4,568,663,114.92	४,७८०,२३६,४७७
6. Staff Expenses	1,849,133,326.11	2,486,716,360.51	2,679,861,418.97	2,209,114,434.73	२,४४५,३१५,२५१
7. Other Overhead Expenses	288,019,953.63	300,690,857.19	330,022,358.54	376,622,882.89	५२०,२७२,१९८
8. Exchange Fluctuation Loss	0	0	5,576,453.09	1,268,597.98	७७८,५३२
OPERATING PROFIT BEFORE PROVISION FOR POSSIBLE LOSSES	616,540,836.23	781,051,887.46	1,361,931,134.85	1,981,657,199.32	१,८१३,८७०,४९६
9. Provision for Possible Losses	2,677,476,446.00	2,184,687,897.96	2,582,233,956.93	2,504,030,906.77	१,९१६,६२३,५८५
OPERATING PROFIT	(-2,060,935,609.77)	(-1,403,636,010.50)	(-1,220,302,822.08)	(-522,373,707)	ढ१०२,७५३,०८९८

10. Non-Operating Income/Loss	18,336,500.12	634,988,721.00	19,474,406.90	105,562,274.41	৫৭,৪৭৩,৫৪৬
11. Provision Written Back	4,064,477,980.42	1,381,931,514.01	2,469,670,889.01	2,182,828,111 .44	২,০৩৪,৭৭৯,৫৬৪
PROFIT FORM REGULAR OPERATION	2,021,878,870.77	613,284,224.51	1,268,842,473.83	1,766,016,679.40	২,০৭৩,৫৬৪,৬৩৭
12.Profit/Loss from extraordinary Activities	(-1,212,161,792.51)	1,106,749,242.18	667,292,635.13	367,166,143.98	৬৩৪,৩০৭,৭৪৭
NET PROFIT AFTER CONSIDERAIN ALL ACTIVITIES	809,717,078.26	1,720,033,466.69	1,936,135,108.96	2,133,192,922.39	২,৬৪৭,৪৩ ৩,৩৫০
13. Provision for Staff Bonus	59,979,043.00	127,409,886.00	143,417,415.48	158,013,542.40	৭৭৬,২৬৪,৩২৪
14. Provision for Income Tax	80,498,668.29	232,476,369.38	344,201,797.15	398,984,194.56	৪৭৪,৬৬০,৩৪৫
**. Current Year's*	80,498,668.29	232,476,369.38	344,201,797.15	398,984,194.56	৪৭৪,৬৬০,৩৪৫
**. Previous Year's*	0	0	0	0	৪৭৪,৬৬০,৩৪৫

Appendix 2: Calculation of Coefficient of Correlation between Investment on Government Securities (GS) and Total Deposit (TD):

GS(X)	*TD(Y)*	*x (X-$\overline{X}$)*	*x2*	*y (Y-$\overline{Y}$)*	*Y2*	*x y*
1806.73 13	*32553.83*	*-616.728*	*380353.43*	*-3598.06*	*12946035.76*	*2219024.34768*
2717.81	*35159.61*	*294.352*	*86643.10*	*-992.28*	*984619.60*	*-292079.60256*
1759.47	*32472.57*	*-663.988*	*440880.06*	*-3679.32*	*13537395.66*	*2443024.32816*
2553.27	*34394.63*	*129.12*	*16851.16*	*-1757.26*	*3087962.71*	*-228113.43512*
3280.01	*46178.81*	*856.552*	*733681.33*	*10026.92*	*100539124.69*	*8588578.37984*
$\sum X$= 12117.29	*$\sum Y$= 180759.45*		*$\sum x2$ = 1658409.07*		*$\sum y2$ = 131095138.4184*	*$\sum x\,y$ = 12730434.018*

1. $\overline{X} = \frac{\sum X}{N} = \frac{12117.29}{5} = 2423.458$

2. $\overline{Y} = \frac{\sum Y}{N} = \frac{180759.45}{5} = 36151.89$

3. $r = \frac{\sum x\,y}{\sqrt{\sum x2 \sum y2}}$

$= \frac{12730434.018}{\sqrt{1658409.07 \text{ X } 131095138.4184}}$

$= 0.86$

4. $PE = 0.6745 \frac{1-r2}{\sqrt{N}} = 0.6745 \frac{1-(0.86)\,2}{\sqrt{5}} = 0.079$

5. $6\,PE = 6 \times 0.079 = 0.47$

Appendix 3: Calculation of Coefficient of Correlation between Loan & Advances (LA) and Total Deposit (T.D):

LA(X)	*TD(Y)*	*x (X-$\overline{X}$)*	*x2*	*y (Y-$\overline{Y}$)*	*Y2*	*x y*
30589.43	*32553.83*	*-3601.86*	*12973395.46*	*-3598.0600*	*12946035.76*	*12959708.39*
32603.10	*35159.61*	*-1588.19*	*2522347.48*	*-992.2800*	*984619.60*	*1575929.173*
33876.96	*32472.57*	*-314.33*	*98803.35*	*-3679.3200*	*13537395.66*	*1156520.656*
34459.92	*34394.63*	*268.63*	*72162.08*	*-1757.2600*	*3087962.71*	*-472052.7538*
39427.04	*46178.81*	*5235.75*	*27413078.06*	*10026.9200*	*100539124.69*	*52498446.39*
$\sum X$= 170956.45	*$\sum Y$= 180759.45*		*$\sum x2$ = 43079786.424*		*$\sum y2$ = 131095138.4184*	*$\sum x\,y$ = 67718551.86*

1. $X = \frac{\sum X}{N} = \frac{170956.45}{5} = 34191.29$

2. $\overline{Y} = \frac{\sum Y}{N} = \frac{180759.45}{5} = 36151.89$

3. $r = \frac{\sum x\,y}{\sqrt{\sum x2 \sum y2}}$

$$= \frac{6718551.86}{\sqrt{43079786.42 \times 131095138.4}}$$

$$= 0.9011$$

4. $PE = 0.6745 \frac{1-r2}{\sqrt{N}} = 0.6745 \frac{1-(0.9011)\,2}{\sqrt{5}} = 0.0567$

5. $6\,PE = 6 \times 0.0567 = 0.3403$

Appendix 4: Calculation of Coefficient of Correlation between Cash and Bank Balance (CB) and Current Liabilities (CL):

C B (X)	*C L (Y)*	*x (X-$\bar{X}$)*	*x2*	*y (Y-$\bar{Y}$)*	*Y2*	*x y*
905.24	*32553.83*	*-559.57*	*313116.35*	*1072.41*	*1150054.63*	*-600084.08*
1413.97	*3477.28*	*-50.838*	*2584.50*	*-28004.14*	*784232081.17*	*1423674.67*
1366.73	*36202.57*	*-98.078*	*9619.29*	*4721.15*	*22289219.55*	*-463040.56*
1581.09	*36694.63*	*116.282*	*13521.50*	*5213.21*	*27177516.80*	*606202.02*
2057.01	*48478.81*	*592.202*	*350702.21*	*16997.39*	*288911130.83*	*10065885.98*
$\sum X$= 7324.04	*$\sum Y$= 157407.12*		*$\sum x2$ = 689544.8553*		*$\sum y2$ = 1123760002.99*	*$\sum x\,y$ = 11032638.04*

1. $\bar{X} = \frac{\sum X}{N} = \frac{7324.04}{5} = 1464.808$

2. $\bar{Y} = \frac{\sum Y}{N} = \frac{157407.12}{5} = 31481.424$

3. $r = \frac{\sum x\,y}{\sqrt{\sum x2 \sum y2}}$

$= \frac{11032638.04}{\sqrt{689544.8553 \text{ X } 1123760002.99}}$

$= 0.3963$

4. $PE = 0.6745 \frac{1-r2}{\sqrt{N}} = 0.6745 \frac{1-(0.3963)\,2}{\sqrt{5}} = 0.2543$

5. $6\,PE = 6 \times 0.2543 = 1.5256$

Appendix 5: Calculation of Coefficient of Correlation between Loan & Advances (LA) and Net Profit (NP):

LA(X)	*NP(Y)*	*x ($X-\bar{X}$)*	*x2*	*y ($Y-\bar{Y}$)*	*Y2*	*x y*
30589.43	*669.24*	*-3601.86*	*12973395.46*	*-537.2900*	*2880680.54*	*1935243.359*
32603.10	*1057.6*	*-1588.19*	*2522347.48*	*-148.9300*	*22180.14*	*236529.1367*
33876.96	*1892.39*	*-314.33*	*98803.35*	*685.86*	*470403.94*	*-215586.3738*
34459.92	*2365.48*	*268.63*	*72162.08*	*1158.95*	*1343165.10*	*311328.7385*
39427.04	*47.94*	*5235.75*	*27413078.06*	*-1158.59*	*1342330.79*	*-6066087.593*
$\sum X$= 170956.45	*$\sum Y$= 6032.65*		*$\sum x2$ = 43079786.42*		*$\sum y2$ = 3466760.519*	*$\sum x\,y$ = -3798572.732*

1. $\bar{X} = \frac{\sum X}{N} = \frac{170956.45}{5} = 34191.29$

2. $\bar{Y} = \frac{\sum Y}{N} = \frac{6032.65}{5} = 1206.53$

3. $r = \frac{\sum x\,y}{\sqrt{\sum x2 \sum y2}}$

$$= \frac{-3798572.732}{\sqrt{43079786.42 \times 3466760.519}}$$

$$= -0.3108$$

4. $P\,E = 0.6745 \frac{1-r2}{\sqrt{N}} = 0.6745 \frac{1-(-0.3108)\,2}{\sqrt{5}} = 0.2725$

5. $6\,P\,E = 6 \times 0.2725 = 1.6350$

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5. Exchange Fluctuation Income	11,954,962.13	22,096,306.53	0	0	0
TOTALOPERATING INCOME	2,753,694,115.97	3,568,459,105.16	4,377,391,365.45	4,568,663,114.92	४,७८०,२३६,४७७
6. Staff Expenses	1,849,133,326.11	2,486,716,360.51	2,679,861,418.97	2,209,114,434.73	२,४४५,३१५,२५१
7. Other Overhead Expenses	288,019,953.63	300,690,857.19	330,022,358.54	376,622,882.89	५२०,२७२,१९८
8. Exchange Fluctuation Loss	0	0	5,576,453.09	1,268,597.98	७७८,५३२
OPERATING PROFIT BEFORE PROVISION FOR POSSIBLE LOSSES	616,540,836.23	781,051,887.46	1,361,931,134.85	1,981,657,199.32	१,८१३,८७०,४९६
9. Provision for Possible Losses	2,677,476,446.00	2,184,687,897.96	2,582,233,956.93	2,504,030,906.77	१,९१६,६२३,५८५
OPERATING PROFIT	(-2,060,935,609.77)	(-1,403,636,010.50)	(-1,220,302,822.08)	(-522,373,707)	৪१०२,७५३,०८९৳

10. Non-Operating Income/Loss	18,336,500.12	634,988,721.00	19,474,406.90	105,562,274.41	৫৭,৪৭৩,৫৪৬
11. Provision Written Back	4,064,477,980.42	1,381,931,514.01	2,469,670,889.01	2,182,828,111 .44	২,০৩৪,৭৭৯,৫৬৪
PROFIT FORM REGULAR OPERATION	2,021,878,870.77	613,284,224.51	1,268,842,473.83	1,766,016,679.40	২,০৭৩,৫৬৪,৬৩৭
12.Profit/Loss from extraordinary Activities	(-1,212,161,792.51)	1,106,749,242.18	667,292,635.13	367,166,143.98	৬৩৪,৩০৭,৭৪৭
NET PROFIT AFTER CONSIDERAIN ALL ACTIVITIES	809,717,078.26	1,720,033,466.69	1,936,135,108.96	2,133,192,922.39	২,৬৪৭,৪৩ ৩,৩৫০
13. Provision for Staff Bonus	59,979,043.00	127,409,886.00	143,417,415.48	158,013,542.40	৭৭৬,২৬৪,৩২৪
14. Provision for Income Tax	80,498,668.29	232,476,369.38	344,201,797.15	398,984,194.56	৪৭৪,৬৬০,৩৪৫
**. Current Year's*	80,498,668.29	232,476,369.38	344,201,797.15	398,984,194.56	৪৭৪,৬৬০,৩৪৫
**. Previous Year's*	0	0	0	0	৪৭৪,৬৬০,৩৪৫

Appendix 2: Calculation of Coefficient of Correlation between Investment on Government Securities (GS) and Total Deposit (TD):

GS(X)	*TD(Y)*	*x (X-$\overline{X}$)*	*x2*	*y (Y-$\overline{Y}$)*	*Y2*	*x y*
1806.73 13	*32553.83*	*-616.728*	*380353.43*	*-3598.06*	*12946035.76*	*2219024.34768*
2717.81	*35159.61*	*294.352*	*86643.10*	*-992.28*	*984619.60*	*-292079.60256*
1759.47	*32472.57*	*-663.988*	*440880.06*	*-3679.32*	*13537395.66*	*2443024.32816*
2553.27	*34394.63*	*129.12*	*16851.16*	*-1757.26*	*3087962.71*	*-228113.43512*
3280.01	*46178.81*	*856.552*	*733681.33*	*10026.92*	*100539124.69*	*8588578.37984*
$\sum X$= 12117.29	*$\sum Y$= 180759.45*		*$\sum x2$ = 1658409.07*		*$\sum y2$ = 131095138.4184*	*$\sum x\,y$ = 12730434.018*

1. $\overline{X} = \frac{\sum X}{N} = \frac{12117.29}{5} = 2423.458$

2. $\overline{Y} = \frac{\sum Y}{N} = \frac{180759.45}{5} = 36151.89$

3. $r = \frac{\sum x\,y}{\sqrt{\sum x2 \sum y2}}$

$= \frac{12730434.018}{\sqrt{1658409.07 \text{ X } 131095138.4184}}$

$= 0.86$

4. $PE = 0.6745 \frac{1-r2}{\sqrt{N}} = 0.6745 \frac{1-(0.86)\,2}{\sqrt{5}} = 0.079$

5. $6\,PE = 6 \times 0.079 = 0.47$

Appendix 3: Calculation of Coefficient of Correlation between Loan & Advances (LA) and Total Deposit (T.D):

LA(X)	*TD(Y)*	*x (X-$\overline{X}$)*	*x2*	*y (Y-$\overline{Y}$)*	*Y2*	*x y*
30589.43	*32553.83*	*-3601.86*	*12973395.46*	*-3598.0600*	*12946035.76*	*12959708.39*
32603.10	*35159.61*	*-1588.19*	*2522347.48*	*-992.2800*	*984619.60*	*1575929.173*
33876.96	*32472.57*	*-314.33*	*98803.35*	*-3679.3200*	*13537395.66*	*1156520.656*
34459.92	*34394.63*	*268.63*	*72162.08*	*-1757.2600*	*3087962.71*	*-472052.7538*
39427.04	*46178.81*	*5235.75*	*27413078.06*	*10026.9200*	*100539124.69*	*52498446.39*
$\sum X$= 170956.45	*$\sum Y$= 180759.45*		*$\sum x2$ = 43079786.424*		*$\sum y2$ = 131095138.4184*	*$\sum x\,y$ = 67718551.86*

1. $X = \frac{\sum X}{N} = \frac{170956.45}{5} = 34191.29$

2. $\overline{Y} = \frac{\sum Y}{N} = \frac{180759.45}{5} = 36151.89$

3. $r = \frac{\sum x\,y}{\sqrt{\sum x2 \sum y2}}$

$$= \frac{6718551.86}{\sqrt{43079786.42 \times 131095138.4}}$$

$$= 0.9011$$

4. $PE = 0.6745 \frac{1-r2}{\sqrt{N}} = 0.6745 \frac{1-(0.9011)\,2}{\sqrt{5}} = 0.0567$

5. $6\,PE = 6 \times 0.0567 = 0.3403$

Appendix 4: Calculation of Coefficient of Correlation between Cash and Bank Balance (CB) and Current Liabilities (CL):

C B (X)	*C L (Y)*	*x (X-$\bar{X}$)*	*x2*	*y (Y-$\bar{Y}$)*	*Y2*	*x y*
905.24	*32553.83*	*-559.57*	*313116.35*	*1072.41*	*1150054.63*	*-600084.08*
1413.97	*3477.28*	*-50.838*	*2584.50*	*-28004.14*	*784232081.17*	*1423674.67*
1366.73	*36202.57*	*-98.078*	*9619.29*	*4721.15*	*22289219.55*	*-463040.56*
1581.09	*36694.63*	*116.282*	*13521.50*	*5213.21*	*27177516.80*	*606202.02*
2057.01	*48478.81*	*592.202*	*350702.21*	*16997.39*	*288911130.83*	*10065885.98*
$\sum X$= 7324.04	*$\sum Y$= 157407.12*		*$\sum x2$ = 689544.8553*		*$\sum y2$ = 1123760002.99*	*$\sum x\,y$ = 11032638.04*

1. $\bar{X} = \frac{\sum X}{N} = \frac{7324.04}{5} = 1464.808$

2. $\bar{Y} = \frac{\sum Y}{N} = \frac{157407.12}{5} = 31481.424$

3. $r = \frac{\sum x\,y}{\sqrt{\sum x2 \sum y2}}$

$= \frac{11032638.04}{\sqrt{689544.8553 \text{ X } 1123760002.99}}$

$= 0.3963$

4. $PE = 0.6745 \frac{1-r2}{\sqrt{N}} = 0.6745 \frac{1-(0.3963)\,2}{\sqrt{5}} = 0.2543$

5. $6\,PE = 6 \times 0.2543 = 1.5256$

Appendix 5: Calculation of Coefficient of Correlation between Loan & Advances (LA) and Net Profit (NP):

LA(X)	*NP(Y)*	*x ($X-\bar{X}$)*	*x2*	*y ($Y-\bar{Y}$)*	*Y2*	*x y*
30589.43	*669.24*	*-3601.86*	*12973395.46*	*-537.2900*	*2880680.54*	*1935243.359*
32603.10	*1057.6*	*-1588.19*	*2522347.48*	*-148.9300*	*22180.14*	*236529.1367*
33876.96	*1892.39*	*-314.33*	*98803.35*	*685.86*	*470403.94*	*-215586.3738*
34459.92	*2365.48*	*268.63*	*72162.08*	*1158.95*	*1343165.10*	*311328.7385*
39427.04	*47.94*	*5235.75*	*27413078.06*	*-1158.59*	*1342330.79*	*-6066087.593*
$\sum X$= 170956.45	*$\sum Y$= 6032.65*		*$\sum x2$ = 43079786.42*		*$\sum y2$ = 3466760.519*	*$\sum x\,y$ = -3798572.732*

1. $\bar{X} = \frac{\sum X}{N} = \frac{170956.45}{5} = 34191.29$

2. $\bar{Y} = \frac{\sum Y}{N} = \frac{6032.65}{5} = 1206.53$

3. $r = \frac{\sum x\,y}{\sqrt{\sum x2 \sum y2}}$

$$= \frac{-3798572.732}{\sqrt{43079786.42 \times 3466760.519}}$$

$$= -0.3108$$

4. $P\,E = 0.6745 \frac{1-r2}{\sqrt{N}} = 0.6745 \frac{1-(-0.3108)\,2}{\sqrt{5}} = 0.2725$

5. $6\,P\,E = 6 \times 0.2725 = 1.6350$